CATERPILLAR INC.

A STOCK INVESTMENT GUIDE

PRESENTED TO:

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FAL 442
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TOPICAL OUTLINE

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I. COMPANY HISTORY

Caterpillar's roots go back to the turn of the century when two individuals, Benjamin Holt and Daniel Best, began to experiment with steam engines and agricultural machinery. In 1925 these two men combined their interests to form Caterpillar Tractor Company. Since then, Caterpillar has helped to shape the face of the nation and the world. Caterpillar products were used extensively to help fight World War I (before the merger) and World War II. Caterpillar equipment was responsible for the development of our interstate highway system and their products have also been prevalent in the development of third world countries [Caterpillar Public Affairs 1984].

Over this period of time Caterpillar has built a reputation in the eyes of the public that can be matched by few American Corporations. Caterpillar had also become one of America's most successful corporations. However, as the saying goes, "all good things must come to an end" and for Caterpillar this saying certainly held true in the 1980's.

For over fifty straight years, Caterpillar had enjoyed profitability. With the exception of 1932, at the peak of the great depression, the "yellow giant" had never lost money and sales and profits had increased almost every year. Caterpillar had been able to sustain this incredible run of profitable years by "staying ahead in technology, efficiency and product quality" [Forbes 1986]. In addition to Caterpillar's internal efforts, the overall favorable conditions of the world economy had contributed significantly to the company's success. It seemed as though this trend would continue

forever. However, when the recessionary period of the early 1980's hit, Caterpillar was caught off guard. The company lost money for only the second time in 1982 and the losses continued through 1984. Although losing money was enough of a problem in and of itself, the biggest problem that Caterpillar would have to face through these recessionary years was having to reevaluate itself; it's goals and mission, it's management philosophy and practices, it's relationship with the UAW, and it's perception in the eyes of it's shareholders and constituents. The methods that Caterpillar used to reorganize the company included:

1. Replaced CEO Lee Morgan, who had a manufacturing background, with George Schaefer, an accountant, in order to focus on cost cutting [Business Week 1987].

2. Closed many plants and slashed employment by 37% between 1979 and 1985 [Annual Report 1985].

3. Implemented Plant With a Future (PWAF), a $1.2 billion 5 year factory modernization program designed to cut costs by 20% [Fortune 1988].

4. Diversified into new markets such as insurance and finance [Annual Report 1988].

5. Implemented various employee involvement programs to improve its poor relations with the United Auto Workers (UAW) [Annual Report 1988].

II. FINANCIAL HISTORY

Under Schaefer's leadership, Caterpillar has again become profitable as shown on the following page [Value Line 11/17/89]:

	SALES PER SHARE	EPS	DIV PER SHARE	AVG STOCK PRICE	RETURN ON EQUITY	CAPITAL SPENDING PER SHARE
1980	$ 99	$6.53	$2.33	$54	17%	$8.66
1981	105	6.64	2.40	62	15	8.14
1982	73	(2.04)	2.40	44	--	6.05
1983	57	(3.12)	1.50	44	--	3.41
1984	68	(2.60)	1.25	41	--	2.42
1985	68	2.11	.50	36	7	2.33
1986	74	1.80	.50	46	2	2.97
1987	81	3.49	.50	58	9	4.60
1988	103	6.07	.75	62	15	7.82
1989E	109	5.25	1.20	61	N/A	9.35
1992-94E	149	10.70	3.00	120	N/A	9.75

E = ESTIMATED BY NOV 1989 VALUE LINE.

Other key financial statistics include:

Beta..	1.20
Shares outstanding..........................	101 M
Net income from construction business............	80%
Net income from diesel engine business...........	20%
Ratio of international to domestic business.......	50/50
Ratio of institutional to individual investors....	70/30
Capitalization - long term debt to total capital..	25%
Capitalization - equity to total capital.........	75%
Annual % sales growth past 10 years..............	2%
Annual % earnings growth past 10 years...........	-3.5%
Annual % dividend growth past 10 years...........	-10%
Times interest earned (long term debt)...........	5.0
Total interest coverage..........................	3.5
Current assets to current liabilities............	1.60
Value Line financial strength rating.............	A
Moody's bond rating..............................	A2

III. FINANCIAL OUTLOOK

The 3 to 5 year outlook for Caterpillar is influenced by the following factors:

1. General U.S. and international economic outlook (including 1992 European Community)
2. Ability to reduce operating costs through PWAF
3. Continued diversification
4. Improved relations with UAW employees

The consensus of the financial community seems to be that Caterpillar is making progress in the areas noted above and external conditions will favor the company. For example, projections for 1992-1994 are [Value Line Nov 1989]:

	STOCK PRICE	GAIN	ANNUAL TOTAL RETURN
Optimistic	$140	155%	28%
Average	$118	115%	21%
Pessimistic	$95	75%	17%

One of the key factors controlling Caterpillar's stock price would seem to be its ability to reduce operating costs through PWAF. To determine what affect this cost reduction program will have on its stock price, a discounted cash flow analysis could be performed which compares the stock price obtained if the company is successful at reducing costs versus not achieving any significant cost reductions. The results of such an analysis are as follows (see Appendix A for discounted cash flow analysis):

SCENARIO #1	SCENARIO #2
-NO REDUCTION IN COST OF GOODS SOLD (CGS). -5% ANNUAL SALES GROWTH FROM 1990 TO 1994. -4% ANNUAL SALES GROWTH AFTER 1994. -WEIGHTED AVERAGE COST OF CAPITAL (WACC) = 14%	-ACHIEVE A 20% REDUCTION IN CGS FROM 1989 TO 1994. -5% ANNUAL SALES GROWTH FROM 1990 TO 1994. -4% ANNUAL SALES GROWTH AFTER 1994. -WEIGHTED AVERAGE COST OF CAPITAL (WACC) = 14%
STOCK PRICE $68.00	STOCK PRICE $187.00

This discounted cash flow analysis revealed that Caterpillar's stock price is heavily dependent on its ability to control its Cost of Goods Sold. A 5 year phased in 20% reduction in CGS raised Cat's stock price from $68.00 to $187.00 per share. Because Cat's stock price is so sensitive to CGS, further analysis, using the electronic spreadsheet developed in Appendix A, gave the following results:

CHANGE IN CGS PHASED IN FROM 1990 TO 1994	RESULTING STOCK PRICE
5% INCREASE	$36.00
NO CHANGE FROM 1987/1988	$68.00
5% DECREASE	$99.00
10% DECREASE	$130.00
15% DECREASE	$161.00
20% DECREASE	$187.00

Because the trading range of Cat stock for the last 12 months has been $53 - $69 per share [Wall Street Journal 12/1/89], it would appear that investors do not believe that Cat will be able to make significant reductions in their costs through PWAF. If investors did believe that Cat will make significant reductions in their costs, the current stock price would reflect this and would be trading between $68.00 and $187.00 as indicated in the table above. To date, the PWAF program has not delivered all of the cost reduction efforts it has promised and the costs associated with PWAF have been higher than originally anticipated [Fortune 1988]. This lack of initial success with the PWAF investment could explain why the current stock price has not risen because investors are

skeptical and want to see some positive effects of PWAF before they will pay a higher price for the stock.

IV. RECOMMENDATION

Caterpillar was considered a growth stock between 1925 and 1981 because of its rapid and consistent growth in both sales and earnings. In the early 1980's, a combination of a worldwide recession, unfavorable foreign exchange rates, rising costs, and intense competition caused the company to lose $1 billion between 1982 and 1984. Caterpillar has responded by slashing employment (20,000 employee reduction), closing plants, introducing new products, and diversifying. The "Yellow Giant" has been able to return to profitability and its 1988 financial results approach the level of profitability it had achieved before the early 1980's downturn.

From an investment standpoint, Caterpillar stock would seem to appeal to investors who are patient and have confidence in the company's ability to gradually reduce its costs. The current stock price of $58 5/8 [Wall Street Journal 12/1/89] seems to reflect no improvement in reducing costs through the PWAF program. If Caterpillar can make any reduction in its costs, the stock price should dramatically rise as evidenced by the discounted cash flow evaluation techniques used in this paper. Other factors which will influence the stock price include the world economy and competition.

In summary, Caterpillar should make a good investment for the patient investor who is satisfied with a 3 to 5 year horizon. If an investor purchases Caterpillar stock, the investor should monitor the company's performance carefully. The investor should see a

gradual but continual reduction in costs (Cost of Goods Sold) in 1990 and 1991. If costs do not show any improvement during this time period, the investor should consider selling the stock.

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Wall Street Journal, November 6, Corporate Earnings Review: Third Quarter, 1989, p. A9

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APPENDIX A

The procedure used to determine the impact on Caterpillar's stock price from PWAF was as follows:

DETERMINE WEIGHTED AVERAGE COST OF CAPITAL (WACC) FOR CATERPILLAR TO USE AS A DISCOUNT RATE FOR DETERMINING PRESENT VALUE OF FUTURE CASH FLOWS

DEVELOP PRO FORMA INCOME STATEMENT FOR CAT USING "% OF SALES TECHNIQUE" BASED ON 1987/1988 FINANCIAL DATA AND ASSUMING PWAF DOES NOT REDUCE OPERATING COSTS

DEVELOP PRO FORMA BALANCE SHEET USING "% OF SALES TECHNIQUE" BASED ON 1987/1988 FINANCIAL DATA AND ASSUMING PWAF DOES NOT REDUCE OPERATING COSTS

USE DISCOUNTED CASH FLOW ANALYSIS TO DETERMINE WHAT THE RESULTING STOCK PRICE SHOULD BE USING WACC AS THE DISCOUNT RATE IF PWAF DOES NOT REDUCE OPERATING COSTS

DEVELOP PRO FORMA INCOME STATEMENT FOR CAT USING "% OF SALES TECHNIQUE" BASED ON 1987/1988 FINANCIAL DATA AND ASSUMING PWAF DOES REDUCE OPERATING COSTS

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The formula to use to calculate Caterpillar's cost of capital is:

WACC = Ks x %EQUITY + Kd x (1-T) x %DEBT

Per the CAPM ==> Ks = Rf + (Rm - Rf)β

Ks = required return on common stock for investors, or cost of capital to the firm

Rf = risk free rate of return on U.S. Treasury Securities

Rm = expected return of a market portfolio of common stocks

β = sensitivity of the security's excess return to that of the market portfolio

Rf = risk free rate

Per the 12/1/89 Wall Street Journal, 3 month T-Bills are at a 7.6% interest rate.

Rf = 7.6%

Rm = 13% to 19% (consensus estimates, p. 213, Financial Management & Policy by Van Horne)

β = 1.20 (Per 11/17/89 Value Line)

Ks = Rf + (Rm - Rf)β

Ks = 7.6 + (13 - 7.6)(1.20)

Ks = 14.08% assuming Rm = 13%

Ks = 7.6 + (19 - 7.6)(1.20)

Ks = 21.28% assuming Rm = 19%

Ks of Caterpillar is between 14.08% and 21.28%

%Equity Calculation:

Total shareholder's equity = $4.113B (1988 Annual Report)

Long term debt = $1.953B (1988 Annual Report)

%Equity = (4.113)/(4.113 + 1.953) = 68%
%Debt = 32%

Kd = Per the 12/1/89 Wall Street Journal, the AA corporate bond yield is 8.9%. It is assumed Caterpillar can borrow at this rate.

Kd = 8.90%

T = tax rate = 31% per 1988 Annual Report

T = tax rate = 31%

WACC = Ks x %EQUITY + Kd x (1-T) x %DEBT

WACC = (14.08 x .68) + (8.90) x (1 - .31) x (.32) @Rm = 13%

WACC = 11.54% @Rm = 13%

WACC = (21.28 x .68) + (8.90) x (1 - .31) x (.32) @Rm = 19%

WACC = 16.44% @Rm = 19%

Average WACC = (11.54 + 16.44)/2 = 14.0%

The WACC of Caterpillar is 14.0%

PRO-FORMA INCOME STATEMENT
CATERPILLAR INC.
(ALL AMOUNTS IN MILLIONS)
(ASSUMING ANNUAL SALES GROWTH 1990-1994====> 5%)
(ASSUMING ANNUAL SALES GROWTH AFTER 1994===> 4%
(WITH NO REDUCTION IN CGS FROM PWAF)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
NET SALES	11,050	11,603	12,183	12,792	13,431	13,969	14,527	15,108	15,713	16,341
CGS	8,951	9,398	9,868	10,361	10,879	11,315	11,767	12,238	12,727	13,236
GROSS PROFIT	2,100	2,204	2,315	2,430	2,552	2,654	2,760	2,871	2,985	3,105
SELLING, G&A	1,437	1,508	1,584	1,663	1,746	1,816	1,889	1,964	2,043	2,124
R&D	221	232	244	256	269	279	291	302	314	327
OPERATING PROFIT	442	464	487	512	537	559	581	604	629	654
ADD MISC INCOME	199	209	219	230	242	251	261	272	283	294
PROFIT BEFORE TAX	641	673	707	742	779	810	843	876	911	948
INCOME TAX (31%)	199	209	219	230	241	251	261	272	283	294
PROFIT AFTER TAX	442	464	488	512	538	559	581	605	629	654
ADD DEPRECIATION	553	580	609	640	672	698	726	755	786	817
NET CASH FLOW	995	1,044	1,097	1,152	1,209	1,257	1,308	1,360	1,414	1,471

*****MAJOR ASSUMPTIONS*****

1. SALES GROWTH RATE BASED ON VALUE LINE ESTIMATE DATED NOV 1989.
2. CGS BASED ON 1987 & 1988 CGS/SALES RATIO OF 78%.
3. SELLING, G&A EXPENSE BASED ON 1987/1988 EXP/SALES RATIO OF 12%.
4. R&D BASED ON 1987/1988 SALES RATIO OF 2%.
5. MISC INCOME BASED ON 1987/1988 SALES RATIO OF 2%.
6. TAX RATE BASED ON 1987/1988 RATE OF 31%.
7. DEPRECIATION BASED ON 1987/1988 SALES RATIO OF 5%.
8. NET CASH FLOW IS PROFIT AFTER TAX + DEPRECIATION EXPENSE.

PRO-FORMA BALANCE SHEET
CATERPILLAR INC.
(ALL AMOUNTS IN MILLIONS)
(ASSUMING ANNUAL SALES GROWTH 1990-1994====> 5%)
(ASSUMING ANNUAL SALES GROWTH AFTER 1994===> 4%)
(WITH NO REDUCTION IN CGS FROM PWAF)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	----	----	----	----	----	----	----	----	----	----
ASSETS										
CURRENT ASSETS	5,525	5,801	6,091	6,396	6,716	6,984	7,264	7,554	7,856	8,171
PROPERTY, PLANT & EQUIP NET	3,315	3,481	3,655	3,838	4,029	4,191	4,358	4,533	4,714	4,902
OTHER ASSETS	1,547	1,624	1,706	1,791	1,880	1,956	2,034	2,115	2,200	2,288
	======	======	======	======	======	======	======	======	======	======
TOTAL ASSETS	10,387	10,906	11,452	12,024	12,625	13,130	13,656	14,202	14,770	15,361
LIABILITIES										
CURRENT LIAB	3,757	3,945	4,142	4,349	4,567	4,749	4,939	5,137	5,342	5,556
NEED FOR EXTERNAL FUNDS	600	332	348	365	384	322	335	349	363	377

*****MAJOR ASSUMPTIONS*****

1. SALES FORECAST SAME AS INCOME STATEMENT.

2. C.A. BASED ON 1987/1988 SALES RATIO OF 50%.

3. PP & EQUIP BASED ON 1987/1988 SALES RATIO OF 30%.

4. OTHER ASSETS BASED ON 1987/1988 SALES RATIO OF 14%.

5. C.L. BASED ON 1987/1988 SALES RATIO OF 34%.

6. NEED FOR EXTERNAL FUNDS = CHANGE IN TOTAL ASSETS - CHANGE IN CURRENT LIABILITIES (I.E. SPONTANEOUS FINANCING).

7. 1989 NEED FOR EXTERNAL FUNDS WAS ARBITRARILY SET = 600.

CATERPILLAR INC.
VALUE OF THE FIRM
(ALL AMOUNTS IN MILLIONS)
(ASSUMING ANNUAL SALES GROWTH 1990-1994====> 5%)
(ASSUMING ANNUAL SALES GROWTH AFTER 1994===> 4%)
(WACC ==========> 14%)
(WITH NO REDUCTION IN CGS FROM PWAF)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
NET CASH FLOW FROM OPERATIONS	995	1,044	1,097	1,152	1,209	1,257	1,308	1,360	1,414	1,471
CAP EXP & INCREASES IN WORKING CAPITAL	600	332	348	365	384	322	335	349	363	377
NET CASH FLOW FROM CATERPILLAR	395	713	749	786	825	935	973	1,011	1,052	1,094
PRESENT VALUE OF CASH FLOW IN 1989 @ WACC	346	549	505	465	429	426	389	355	323	3,069

TOTAL PRESENT VALUE OF CATERPILLAR ====> 6,856

SHARES OUTSTANDING = 101

VALUE OF COMMON STOCK = PRESENT VALUE/#SHARES = $68

PRO-FORMA INCOME STATEMENT
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	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
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NET SALES	11,050	11,603	12,183	12,792	13,431	13,969	14,527	15,108	15,713	16,341
CGS	8,730	8,818	8,650	8,443	8,193	8,521	8,862	9,216	9,585	9,968
	======	======	======	======	======	======	======	======	======	======
GROSS PROFIT	2,321	2,785	3,533	4,349	5,238	5,448	5,666	5,892	6,128	6,373
SELLING, G&A	1,437	1,508	1,584	1,663	1,746	1,816	1,889	1,964	2,043	2,124
R&D	221	232	244	256	269	279	291	302	314	327
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OPERATING PROFIT	663	1,044	1,706	2,430	3,224	3,352	3,487	3,626	3,771	3,922
ADD MISC INCOME	199	209	219	230	242	251	261	272	283	294
	======	======	======	======	======	======	======	======	======	======
PROFIT BEFORE TAX	862	1,253	1,925	2,661	3,465	3,604	3,748	3,898	4,054	4,216
INCOME TAX (31%)	267	388	597	825	1,074	1,117	1,162	1,208	1,257	1,307
	======	======	======	======	======	======	======	======	======	======
PROFIT AFTER TAX	595	865	1,328	1,836	2,391	2,487	2,586	2,690	2,797	2,909
ADD DEPRECIATION	553	580	609	640	672	698	726	755	786	817
	======	======	======	======	======	======	======	======	======	======
NET CASH FLOW	1,147	1,445	1,937	2,475	3,063	3,185	3,313	3,445	3,583	3,726

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VALUE OF THE FIRM
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	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
NET CASH FLOW FROM OPERATIONS	1,147	1,445	1,937	2,475	3,063	3,185	3,313	3,445	3,583	3,726
CAP EXP & INCREASES IN WORKING CAPITAL	600	332	348	365	384	322	335	349	363	377
NET CASH FLOW FROM CATERPILLAR	547	1,113	1,589	2,110	2,679	2,863	2,977	3,096	3,220	3,349
PRESENT VALUE OF CASH FLOW IN 1989 @ WACC	480	857	1,073	1,249	1,391	1,304	1,190	1,085	990	9,395

TOTAL PRESENT VALUE OF CATERPILLAR ====> 19,015

SHARES OUTSTANDING = 101

VALUE OF COMMON STOCK = PRESENT VALUE/#SHARES = $187

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Part 1 Summary & Index

File at the front of the *Ratings & Reports* binder. Last week's *Summary & Index* should be removed.

November 17, 1989

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SCREENS

The Median of Estimated
PRICE-EARNINGS RATIOS
of all stocks with earnings

12.8

26 Weeks Ago*	Market Low 12-23-74*	Market High 9-4-87*
12.5	4.8	16.9

The Median of
ESTIMATED YIELDS
(next 12 months) of all dividend paying stocks under review

3.0%

26 Weeks Ago*	Market Low 12-23-74*	Market High 9-4-87*
2.9%	7.8%	2.3%

The Estimated Median
APPRECIATION POTENTIAL
of all 1700 stocks in the hypothesized Economic environment 3 to 5 years hence

70%

26 Weeks Ago*	Market Low 12-23-74*	Market High 9-4-87*
65%	234%	40%

*Estimated medians as published in *The Value Line Investment Survey* on the dates shown.

ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER

Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

*Reviewed in this week's edition.

In three parts: This is Part I, the Summary & Index. Part II is Selection & Opinion. Part III is Ratings & Reports. Volume XLV, No. 9.
Published weekly by VALUE LINE, INC, 711 Third Avenue, New York, N.Y. 10017

INDUSTRY TIMELINESS: 30 (of 94)

The companies in the machinery (construction & mining) industry fall pretty neatly into two very different categories: heavy equipment manufacturers and engineering and consulting companies. The manufacturers in this group posted generally strong earnings advances in 1988 and will probably continue to do well this year and next. The engineering and consulting companies, on the other hand, have fallen on difficult times in recent years, and we see little to suggest that they will gain momentum in the near future.

Not surprisingly, the companies in this industry that are ranked above-average for year-ahead performance are all capital goods producers. Those stocks ranked to outperform the market in the next 12 months are *Clark Equipment, Deere, Harnischfeger,* and *Ingersoll Rand.*

COMPOSITE STATISTICS:
MACHINERY (CONSTRUCTION & MINING) INDUSTRY

1985	1986	1987	1988	1989	1990		92-94E
16.9	17.4	19.1	23.2	*25.5*	*27.6*	Revenues ($bill)	*33.4*
8.8%	5.4%	7.4%	11.3%	*11.0%*	*12.0%*	Operating Margin	*13.0%*
834.5	820.1	766.6	809.1	*850*	*850*	Depreciation ($mill)	*940*
418.9	84.4	427.8	1212.5	*1360*	*1650*	Net Profit ($mill)	*2450*
17.3%	--	32.7%	30.4%	*33.0%*	*34.5%*	Income Tax Rate	*36.0%*
2.5%	0.5%	2.2%	5.2%	*5.3%*	*6.0%*	Net Profit Margin	*7.5%*
4.63	4.56	4.51	5.46	*5.97*	*6.68*	Working Cap'l ($bill)	*9.20*
3.22	3.18	2.89	3.59	*3.72*	*3.78*	Long Term Debt ($bill)	*3.92*
8.13	8.06	8.53	9.93	*11.0*	*12.2*	Net Worth ($bill)	*16.9*
5.1%	2.1%	5.1%	10.4%	*10.5%*	*11.5%*	% Earned Total Cap'l	*12.5%*
5.2%	1.1%	5.0%	12.2%	*12.5%*	*13.5%*	% Earned Net Worth	*14.5%*
2.3%	NMF	3.0%	10.1%	*9.5%*	*10.5%*	% Retained to Comm Eq	*10.5%*
57%	NMF	41%	19%	*24.5%*	*24.5%*	% All Div'ds to Net Prof	*29%*
20.1	NMF	28.2	11.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	*12.0*
1.63	NMF	1.89	0.95			Relative P/E Ratio	*1.00*
2.8%	2.0%	1.4%	1.6%			Avg Ann'l Div'd Yield	*2.7%*

High Prices, High Profits, High Spending

Some of the capital goods producers in this industry, particularly *Caterpillar, Harnischfeger,* and *Manitowoc,* have experienced strong demand in the past two years from customers in the mining industry. This resurgence in demand was the inevitable result of increased commodities prices and near-capacity output levels among copper and aluminum producers. Increased demand for these commodities has produced sharply higher sales and earnings among metals producers in the past few years. Operating at near capacity and flush with cash, mining concerns have spent heavily to increase efficiency and production, and the capital goods producers in this industry have been the beneficiaries of this spending binge.

Capital goods suppliers have also benefited from higher prices for paper and forest products, which have helped fill the coffers of companies in that industry. As among the miners, paper companies pushing at capacity constraints and enjoying sharply higher prices for their products have spent heavily on expansion.

Obviously, capacity constraints are not unique to commodities producers. In this country, capacity utilization in the past two years has stayed well above where it was in the middle of this decade, forcing factories to reinvest in order to boost productivity levels. Companies like *Clark Equipment* and *JLG Industries* that sell materials handling equipment have gotten a lift from the search for greater efficiency, and such mundane items as bearings and winches have fed *Ingersoll Rand's* profit growth. And, finally, the retreat of the U.S. dollar from its 1984-85 highs has helped many of these companies compete in Asian and European markets, where spending on manufacturing facilities has been high in recent years.

But Not For Everyone

In stark contrast to the vigorous demand environment encountered by their manufacturing brethren, the engineering and consulting companies in this group have experienced a frustrating softness in demand for their services. This softness is due to the unwillingness of their traditional customer base, the electric utility industry, to build large new power-generating facilities. It's frustrating because, at least in certain markets, new facilities will probably be needed by the middle of the next decade, but initial planning and design steps have not been taken. Utilities have been loathe to commit to significant expansion projects in an era of anti-nuclear protests and, they feel, irrational rate-making decisions by regulators. Baseload expansion projects have been few and far between in recent years; competition for those that are available has been fierce, and the consulting companies' expansion into process technologies and defense consulting can't fill the gap.

What Goes Around, Goes Around

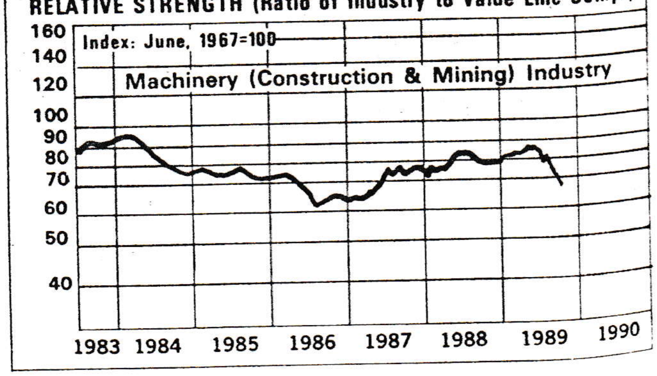
The prices of goods made from trees and metals won't go up forever; in fact some have probably already hit their cyclical peaks. When prices fall, the mining and paper companies will have fewer dollars available for capital expansion and less incentive to reinvest, so they will probably spend less in the early 90's than they have in the late 80's. Producers in other markets, though, particularly in the oil and gas industry, are likely to step up their expansion plans, helping to offset some of the dropoff in demand the capital goods suppliers may experience in the next few years. And, as suggested above, the increasing likelihood, if not occurrence, of brownouts and blackouts in areas served by cautious utilities will eventually lead to power plant construction. Investors should, therefore, look beyond next year's earnings estimates when considering the companies reviewed on these pages.

Investment Considerations

Of the eleven companies covered in this industry group, *Clark Equipment, Deere, Harnischfeger,* and *Ingersoll Rand* all are ranked 2 (Above Average) for Timeliness. *Quadrex* and *Stone & Webster,* on the other hand, are pegged by our ranking system as poor picks for year-ahead performance. Given the wide diversity in both year-ahead and 3- to 5-year performance potential evident on these pages, subscribers are especially urged to consult individual reports before making any commitments.

Mark Robertson

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



CATERPILLAR NYSE-CAT

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
55	10.3	(Trailing: 10.1 Median: 17.0)	0.80	2.9%	1349

TIMELINESS 3 Average
(Relative Price Performance Next 12 Mos.)
SAFETY 3 Average
(Scale: 1 Highest to 5 Lowest)
BETA 1.20 (1.00 = Market)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
High:	62.9	64.0	73.3	55.3	49.5	52.8	43.1	55.4	74.8	68.5	69.0
Low:	49.1	43.5	49.6	33.1	37.4	28.4	29.0	36.6	39.9	53.9	52.9

1992-94 PROJECTIONS

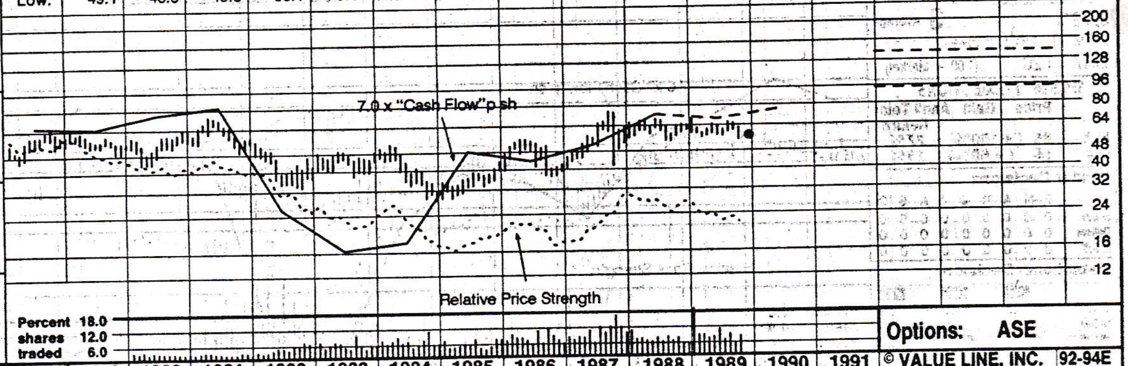
	Price	Gain	Ann'l Total Return
High	140	(+155%)	28%
Low	95	(+75%)	17%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	1	0	0	0	0	0	0
Options	8	1	0	1	3	0	0	7	1
to Sell	0	0	0	0	2	0	0	1	0

Institutional Decisions

	4Q'88	1Q'89	2Q'89
to Buy	103	113	136
to Sell	106	145	122
Hld's(000)	66186	66803	64323



Options: ASE

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	© VALUE LINE, INC.	92-94E
47.57	57.77	58.54	67.80	83.59	88.08	99.41	104.51	73.29	57.00	67.94	68.36	74.08	80.65	102.90	*108.85*	*117.95*		Sales per sh [A]	*148.80*
4.13	6.46	6.59	7.60	9.53	9.30	10.81	11.73	3.68	2.31	2.52	6.94	6.21	7.40	10.35	*9.85*	*10.90*		"Cash Flow" per sh	*15.05*
2.67	4.65	4.45	5.16	6.56	5.69	6.53	6.64	d2.04	d3.12	d2.60	2.11	1.80	3.49	6.07	*5.25*	*6.50*		Earnings per sh [B]	*10.70*
1.10	1.23	1.46	1.58	1.88	2.10	2.33	2.40	2.40	1.50	1.25	.50	.50	.50	.75	*1.20*	*1.60*		Div'ds Decl'd per sh [C] ■	*3.00*
4.08	5.19	5.75	5.99	6.29	7.82	8.66	8.14	6.05	3.41	2.42	2.33	2.97	4.60	7.82	*9.35*	*8.85*		Cap'l Spending per sh	*9.75*
17.06	20.49	23.54	27.16	31.87	35.46	39.68	44.03	39.61	35.07	29.46	31.19	31.86	35.15	40.56	*44.60*	*49.45*		Book Value per sh [D]	*69.35*
85.81	85.93	86.13	86.26	86.36	86.43	86.49	87.59	88.27	95.15	96.80	98.38	98.83	101.42	101.41	*101.50*	*101.75*		Common Shs Outst'g [E]	*102.50*
13.7	9.3	12.8	10.4	8.5	9.8	8.3	9.1	--	--	--	16.5	25.6	15.8	10.1	Bold figures are			Avg Ann'l P/E Ratio	*11.0*
1.92	1.24	1.64	1.36	1.16	1.42	1.10	1.11	--	--	--	1.34	1.74	1.06	.84	Value Line			Relative P/E Ratio	*.90*
3.0%	2.8%	2.6%	2.9%	3.4%	3.8%	4.3%	4.0%	5.7%	3.4%	3.1%	1.4%	1.1%	.9%	1.2%	estimates			Avg Ann'l Div'd Yield	*2.5%*

CAPITAL STRUCTURE as of 6/30/89 [A]
Total Debt $3648 mill. **Due in 5 Yrs** $2950 mill.
LT Debt $2210 mill. **LT Interest** $223.2 mill.
(LT interest earned: 5.0x; total interest coverage: 3.5x) (34% of Cap'l)

Pension Liability None in '88 vs. none in '87

Pfd Stock None

Common Stock 101,413,037 shs. (66% of Cap'l)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	© VALUE LINE, INC.	92-94E
8597.8	9154.5	6469.0	5424.0	6576.0	6725.0	7321.0	8180.0	10435	*11050*	*12000*		Sales ($mill) [A]	*15250*
14.0%	14.8%	3.9%	3.6%	6.4%	11.6%	9.4%	10.9%	13.7%	*12.0%*	*13.0%*		Operating Margin	*14.5%*
370.2	448.4	505.0	506.0	492.0	476.0	436.0	403.0	434.0	*465*	*450*		Depreciation ($mill) [F]	*450*
564.8	578.9	d180.0	d286.0	d248.0	207.0	178.0	348.0	616.0	*535*	*660*		Net Profit ($mill)	*1095*
30.1%	28.5%	--	--	--	12.0%	15.6%	27.7%	31.1%	*28.0%*	*34.0%*		Income Tax Rate	*36.0%*
6.6%	6.3%	NMF	NMF	NMF	3.1%	2.4%	4.3%	5.9%	*4.8%*	*5.5%*		Net Profit Margin	*7.2%*
1221.4	1174.9	2236.0	1807.0	976.0	1240.0	1183.0	1421.0	1882.0	*1880*	*1915*		Working Cap'l ($mill) [A]	*2470*
931.6	960.9	2389.0	1894.0	1384.0	1177.0	963.0	900.0	1953.0	*2020*	*2000*		Long-Term Debt ($mill) [A]	*2010*
3432.0	3856.8	3496.0	3337.0	2852.0	3068.0	3149.0	3565.0	4113.0	*4530*	*5030*		Net Worth ($mill)	*7110*
13.7%	12.8%	NMF	NMF	NMF	6.4%	5.5%	8.9%	11.8%	*9.5%*	*11.0%*		% Earned Total Cap'l	*13.0%*
16.5%	15.0%	NMF	NMF	NMF	6.7%	5.7%	9.8%	15.0%	*12.0%*	*13.0%*		% Earned Net Worth	*15.5%*
10.6%	9.6%	NMF	NMF	NMF	5.2%	4.1%	8.4%	13.1%	*9.0%*	*10.0%*		% Retained to Comm Eq	*11.0%*
36%	36%	NMF	NMF	NMF	24%	28%	14%	13%	*23%*	*25%*		% All Div'ds to Net Prof	*28%*

CURRENT POSITION [A] ($MILL.)	1987	1988	6/30/89
Cash Assets	103.0	74.0	85.0
Receivables	2033.0	2669.0	2924.0
Inventory (LIFO)	1323.0	1986.0	2077.0
Other	354.0	588.0	614.0
Current Assets	3813.0	5317.0	5700.0
Accts Payable	1311.0	1495.0	1411.0
Debt Due	584.0	1307.0	1438.0
Other	497.0	633.0	724.0
Current Liab.	2392.0	3435.0	3573.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '86-'88 to '92-'94
Sales	2.0%	2.0%	*9.5%*
"Cash Flow"	--	6.0%	*11.0%*
Earnings	-3.5%	--	*19.0%*
Dividends	-10.0%	-22.5%	*31.5%*
Book Value	2.5%	-2.0%	*11.5%*

Calendar	QUARTERLY SALES ($ mill.) [A] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1986	1735	1989	1822	1775	7321
1987	1647	2042	2250	2241	8180
1988	2382	2602	2789	2662	10435
1989	2680	3041	2643	*2686*	*11050*
1990	*2800*	*3030*	*3170*	*3000*	*12000*

Calendar	EARNINGS PER SHARE [B] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1986	1.16	1.41	d.26	d.51	1.80
1987	d.36	1.15	1.45	1.25	3.49
1988	1.16	1.44	1.87	1.60	6.07
1989	1.39	1.39	1.07	*1.40*	*5.25*
1990	*1.50*	*1.60*	*1.70*	*1.70*	*6.50*

Calendar	QUARTERLY DIVIDENDS PAID [C] ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1985	.125	.125	.125	.125	.50
1986	.125	.125	.125	.125	.50
1987	.125	.125	.125	.125	.50
1988	.187	.187	.187	.187	.75
1989	.30	.30	.30		

BUSINESS: Caterpillar Inc. is the world's largest producer of earthmoving equipment. Major markets include road building, mining, logging, agriculture, petroleum, and general construction. Products include tractors, scrapers, graders, compactors, loaders, off-highway trucks, and pipelayers. Also makes diesel & turbine engines and lift trucks. Has 30 plants, more than 1000 dealers worldwide. International business accounts for 50% of sales; R&D: 1.7%. 1988 depreciation rate: 6.7%. Estimated plant age: 9 years. Has about 60,765 employees, 32,790 stockholders. Insiders control .6% of stock. Chairman: G.A. Schaefer; President: Donald Fites. Incorporated: Delaware. Address: 100 N.E. Adams Street, Peoria, Illinois 61629. Telephone: 309-675-1000.

Caterpillar's overseas markets remain buoyant in 1989 . . . Dealer sales of Cat equipment and diesel engines outside the U.S. continue to rise, particularly in Europe, where construction activity and replacement demand remain strong. And thanks to a hearty economy and a long list of major construction projects, sales in Japan are in a steep ascent.

. . . but slow construction activity at home is taking its toll. Third-quarter sales to the domestic market were off slightly from the same quarter last year, reflecting lower end-user demand for heavy equipment from the construction industry. Although the decline in sales has been most noticeable in housing applications, nonresidential construction is also in the doldrums, dampened by high interest rates in the U.S. which reduce building activity and discourage the replacement of equipment. Shipments of Cat's diesel engines to OEM manufacturers are also down, and seem destined to fall further, given the sharp decline in sales of heavy-duty trucks experienced in the second half of this year.

There are some bright spots, though. Over the past two years, more than half of the states have raised gasoline taxes, with the lion's share of the new revenues being used to upgrade roads. Cat's sales to the highway construction and repair market have improved accordingly. Demand from the domestic forestry and mining industries also continues to rise from the weak levels of a year ago. And as a result of higher estimated tax credits and a change in the geographic areas in which this year's profits will be earned, the company now expects to pay '89 taxes at a significantly lower rate (28%). Still, we doubt that these factors alone can offset Cat's overall sales decline this year and the company's heavy costs of product development and plant modernization. Thus, we have reduced our '89 and '90 earnings estimates to $5.25 and $6.50 a share, respectively.

Cat stock is ranked to keep pace with the year-ahead market, based on recent price and earnings momentum. Yet once the company starts to get the payback from its current program of capital investment, probably in the early '90s, these shares should provide appreciation well in excess of that of the average equity.

Mark Leach *November 17, 1989*

(A) Includes Finance subsidiary from 1/88.
(B) Primary earnings. Excludes nonrecurring charges, net: '83, 62¢; '84, $1.87; '85, 9¢; '86, $1.03; '87, 30¢. Next earnings report due early Feb. (C) Next dividend meeting about Dec. 11. Goes ex about Jan. 23. Approximate dividend payment dates: 20th of Feb., May, Aug., Nov.
■ Dividend reinvestment plan available.
(D) Incl. intangibles. In '88: $71.0 mill., 70¢/sh.
(E) In millions. (F) Depreciation on accelerated basis.

Company's Financial Strength	A
Stock's Price Stability	50
Price Growth Persistence	25
Earnings Predictability	10

Primary Law Firm—Dawkins & Lee, P.A.
Sales: Over $4Mil Employees: 12
*Also DIRECTORS —Other Directors Are:
Rod Plyler Ann P. Williams
BUSINESS: Petroleum marketers (ret. & whl.)
S.I.C. 5172; 5983

CATAWISSA LUMBER & SPECIALTY CO., INC.
Cemetery St., Box 176, Catawissa, Pa. 17820
Tel. 717-356-2349
*Pres—Wm. Gittler, Jr.
*V-P (Mfg)—Robert Paul Gittler
*V-P & Compt—Pauline R. Gittler
*V-P (Purch & Sales)—John T. Gittler
*V-P (Admin)—A. G. Baggett
Accts— Gehrig & Halterman, Bloomsburg, Pa.
Primary Bank— Bloomsburg Bank - Columbia Trust Co.
Primary Law Firm—McNees, Wallace & Nurick
Sales: $15Mil Employees: 235
*Also DIRECTORS
PRODUCTS: Hardwood furniture dimension
S.I.C. 2426

CATAWISSA VALVE & FITTINGS CO.
(Subs. Maxi Manufacturing Co.)
206 Main St., Box 157, Catawissa, Pa. 17820
Tel. 717-356-2311
*Pres—F. Max Long
*Secy & Treas—Fred M. Long
Sales Mgr—Patricia Wondoloski
Purch Agt—Frederick M. Feese
Accts— Gehrig & Halterman, Bloomsburg, Pa.
Primary Bank— First Eastern Bank, N.A.
Sales: $3Mil Employees: 25
*Also DIRECTORS —Other Directors Are:
George L. Fenner, Jr. Donald H. Keyser
Edward L. Long
PRODUCTS: Forged steel pipe unions, valves, oilfield unions
S.I.C. 3494; 3321

CATCH A RISING STAR INC.
157 W. 57th St., New York, N. Y. 10019
Tel. 212-977-5160
*Pres—Richard Fields
Secy—Ernestine Guglielmo
Stock Exchange(s): OTC
*Also DIRECTORS —Other Directors Are:
Arthur Grossman Morris Weissman
BUSINESS: Restaurants, bars & public golf courses
S.I.C. 5812; 5813; 7992

CATEAR RESOURCES LTD.
400, 255-17th Ave., S. W. Calgary, Alta., Can. T2S 2T8
Tel. 403-228-6761
*Pres—E. R. Kruchkowski
*Secy & Treas—Angela Y. Pisicoli
Accts— Ernst & Whinney, Calgary, Alberta, Can.
Revenue: Under $1Mil
Stock Exchange(s): VAN
*Also DIRECTORS —Other Directors Are:
C. L. Cory D. C. Martin
BUSINESS: Gold mining; oil & gas explor. & devel.
S.I.C. 1031; 1311

CATEL TELECOMMUNICATIONS INC.
(Subs. Data-Design Laboratories, Inc.)
4050 Technology Pl., Fremont, Cal. 94538
Tel. 415-659-8988
*Chrm—Thomas Beisecker
*Pres & Acting Sales Mgr—James D. Hood
V-P (Fin)—Guy C. Wright
V-P (Engr)—Mircho Davidov
V-P (Mfg)—Kirt Meier
Secy & Treas—Richard Littman
Accts— Price Waterhouse, San Jose, Cal.
Primary Bank— Sanwa Bank California
Primary Law Firm—Gibson, Dunn & Crutcher
Sales: $10Mil Employees: 120
*Also DIRECTORS —Other Directors Are:
Milt Sneller
PRODUCTS: Radio frequency proc. equip.
S.I.C. 3663

CATELLI FOODS, INC.
(Subs. John Labatt Limited)
P.O. Box 5213, Manchester, N. H. 03108
Tel. 603-627-0886
*Pres—Charles M. Waite
*V-P—Stephen J. Mosher
Sales Rep—Joe Palmer
Accts— Arthur Young, Boston, Mass.
Primary Bank— BankEast
Primary Law Firm—Wiggin & Nourie
Sales Range: $7—10Mil Employees: 225
*Also DIRECTORS
PRODUCTS: Canned meats; mfr. frankfurters & hams
S.I.C. 2013

CATELLI INC.
(Subs. Catelli Foods Inc.)
500 Rele Levesge Blvd. W., Montreal, Que., Can. H2Z 1W7
Tel. 514-937-7461
*Pres & Mgn Dir—Richard D. Innis
*V-P (Human Resources)—J. C. Gauthier
V-P (Tech Research)—Rolland Melanson
V-P & Gen Mgr—Ray Hout
*Secy, Treas & Compt—P. P. Amyot
Sales Dir—D. R. Laforte
Mktg Devel Dir—Peter Deticik
Accts— Clarkson Gordon, Montreal, Que., Can.
Primary Bank— Canadian Imperial Bank of Commerce
Primary Law Firm—Lavery, O'Brien

Sales: $300Mil Employees: 1,500
*Also DIRECTORS
PRODUCTS: Alimentary pastes, canned foods
S.I.C. 2032

CATERPILLAR INC.
100 N.E. Adams St., Peoria, Ill. 61629
Tel. 309-675-1000

CAT®

*Chrm & Chief Exec Officer—G. A. Schaefer
*Pres—P. P. Donis
*Exec V-P—D. V. Fites
Exec V-P—D. S. Gould
Exec V-P—P. C. Guerindon
*Exec V-P—James W. Wogsland
V-P—Glen A. Barton
V-P—Donald F. Coonan
V-P—R. C. Dryden
V-P—C. N. Fangman
V-P—G. S. Flaherty
V-P—F. N. Grimsley
V-P—J. N. Hanson
V-P—Keith G. Johnson
V-P—David A. Lewis
V-P—C. E. Rager
V-P—R. D. Saurs
V-P—B. Sorel
V-P—D. W. Turnbull
V-P—Lawrence Williams
V-P—J. D. Winters
Treas—L. A. Kuchan
Secy—Robert R. Thornton
Cont—J. W. Kenning
Accts— Price Waterhouse, Peoria, Ill.
Sales: $8.18Bil Employees: 53,781
Stock Exchange(s): NYS, BST, PAC, MID, CIN, PSE
*Also DIRECTORS —Other Directors Are:
L. H. Affinito J. W. Fondahl
L. V. Gerstner, Jr. R. E. Gilmore
W. H. Helmerich, III Charles F. Knight
L. L. Morgan R. R. Warner, Jr.
PRODUCTS: Track-type & wheel-type diesel tractors, front-end loaders, pipelayers, motor graders, off-highway trucks, excavators, ind. lift trucks, bulldozers, scrapers, rippers, compactors, diesel & natural gas engines sold as industrial, truck & marine power units, electric generator sets, turbine engines, compressors, asphalt & concrete paving machines, asphalt plants, pavement profilers & related parts & equip.
S.I.C. 3531; 3511; 3519; 3537; 3563

CATERPILLAR INDUSTRIAL INC.
(Subs. Caterpillar Inc.)
5960 Heisley Rd., Mentor, Ohio 44060
Tel. 216-357-2200
*Pres—D. W. Turnbull
*Secy & Treas—L. W. Knapp
*Sales Mgr—R. J. Jacobson
Empl. Rel. Mgr—C. K. Niles
Accts— Price Waterhouse, Cleveland, Ohio
Primary Law Firm—Thompson, Hine & Flory
Employees: 350
*Also DIRECTORS —Other Directors Are:
D. V. Fites J. Hanson
G. A. Schaefer
PRODUCTS: Gasoline, diesel & electric powered industrial lift trucks
S.I.C. 3537

CHAS. F. CATES & SONS, INC.
205 Railroad St., Faison, N. C. 28341
Tel. 919-267-4711
*Chrm—G. H. Cates
*Pres—W. L. Hennessee, Jr.
V-P (Mfg)—L. D. Sutton
V-P & Ret Sales Mgr—Roy Hawkins
V-P & Inst Sales Mgr—J. Calder
Treas—Charles E. Faulkner
Secy—W. J. Igoe
Cont—Paul Bridgers
Gen Coun—Eugene O. Savedge, Charleston, S. C.
Field Mgr—W. O. Wood
Accts— McGladrey & Pullen, New Bern, N. C.
Primary Bank— United Virginia Bank
Primary Law Firm—Taylor, Warren, Kerr & Walker
Employees: 300
*Also DIRECTORS —Other Directors Are:
W. A. Miller W. R. Stimson
David L. Strain John Swanner
James A. Sweeny
PRODUCTS: Pickles & pickle products
S.I.C. 2035

CATHEDRAL ART METAL COMPANY
250 Esten Ave., Pawtucket, R. I. 02860
Tel. 401-726-2100
Pres—William J. Tracey
Sales Range: $2—5Mil Employees: 45
PRODUCTS: Metal casting, stamping, screen printing of metal frames
S.I.C. 3366; 2759; 3469

CATHEDRAL CANDLE CO.
510 Kirkpatrick St., Box 165, Syracuse, N. Y. 13
Tel. 315-422-9119
*Pres—Louis J. Steigerwald, Jr.
*V-P—Louis J. Steigerwald, III
*Treas—Mary L. Steigerwald
*Secy—Linda D. Rohde
Primary Bank— Key Bank of Central N. Y.
Sales: Under $1Mil
*Also DIRECTORS
PRODUCTS: Beeswax, stearic acid candles & supplies for church use
S.I.C. 3999

CATHERINE'S, INC.
1878 Brooks Rd. E., Memphis, Tenn. 3811
Tel. 901-398-9500
*Pres—Bernard Wein
Exec V-P—Stanley Grossman
Exec V-P—Gerald Sideman
Exec V-P—David C. Forell
Sr V-P—Fred Kubler, Jr.
Accts— Arthur Andersen & Co., Memphis, Tenn.
Primary Bank— First Tennessee Bank, N.A.
Primary Law Firm—Warning & Cox
Sales: $108Mil
*Also DIRECTORS —Other Directors Are:
Bruce Bruckman Paul Dimtruk
W. S. Peebles, III Manuel Rosenberg
BUSINESS: Retailer - large size women's clothing
S.I.C. 5621; 5632

CATHY DANIELS LTD.
1441 Broadway, New York, N. Y. 10018
Tel. 212-354-8000
*Chrm—Herbert Chestler
Pres—Steven Chestler
V-P (Prod) & Treas—Daniel Chestler
Secy—Cathy Chestler
Accts— Ira Sarinsky & Co., New York, N. Y.
Primary Bank— Gotham Bank of New York
Sales: $30Mil Employees: 125
*Also DIRECTORS
PRODUCTS: Womens sportswear
S.I.C. 2339

CATO CORP.
8100 Denmark Rd., Charlotte, N. C. 28217
Tel. 704-554-8510
*Chrm & Pres—Wayland H. Cato, Jr.
*Vice-Chrm—E. T. Cato
*Exec V-P (Mdse)—James W. Emery
Exec V-P—John W. DeStefano
*Sr V-P—Clarice C. Goodyear
Sr V-P (Real Estate)—Joseph T. Cotner
Sr V-P—David T. Cloer
*Secy & Treas—Hubert H. Thomason
Accts— Touche Ross & Co, Charlotte, N. C.
Primary Bank— NCNB National Bank of North Carolina
Primary Law Firm—Moore & Van Allen
Sales: $175.14Mil
Employees: 2,300 Full-time; 1,800 Part-time
Stock Exchange(s): OTC
*Also DIRECTORS —Other Directors Are:
George S. Currin F. Kenneth Iverson
James V. Johnson Larrimore Wright
BUSINESS: Operates woman's specialty shops; dresses, coats, sportswear, lingerie & accessories
S.I.C. 5621; 5632

CATO OIL AND GREASE CO. (Subs. Kerr-McGee Refining Corp.)
(See KERR-McGEE CORP.)

CATSKILL SAVINGS BANK
341 Main St., Catskill, N. Y. 12414
Tel. 518-943-3600
*Chrm—Robert V. Warrington
*Pres & Chief Exec Officer—Wilbur J. Cross
V-P & Secy—David L. Guldenstern
V-P—Deborah S. Henderson
V-P—Roger F. Lane
Treas—William J. Moore
Aud—Ruth E. Scott
Accts— Peat Marwick Main & Co., Albany, N. Y.
Primary Bank— Schenectady Trust Co.
Primary Law Firm—Pulver & Stiefel
Assets: $175.87Mil Employees: 66
*Also TRUSTEES —Other Trustees Are:
H. Milton Chadderdon George F. Holdridge
George P. Jones Richard Marshall, Jr.
Harry L. Palmer Jack E. Ursprung
Allan D. Oren Edward P. Stiefel
Paul D. Englert
PRODUCTS: Mutual savings banks serv.
S.I.C. 6022

CATTON BROTHERS CORP.
75 Ethel Rd., Edison, N. J. 08817
Tel. 201-287-9111
Chief Exec Officer—E. Catton
Pres—Harry Catton
Sales Range: $1—2Mil Employees: 40
PRODUCTS: Infants wear
S.I.C. 2369; 2361

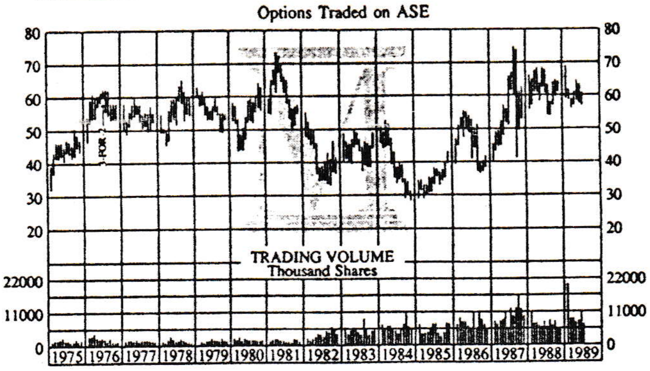
CATTRON, INC.
(Subs. Leasecomm)
29 N. Second St., Sharpsville, Pa. 16150
Tel. 412-962-3571
Pres—James P. Cattron
V-P—Carl Verholek
Treas—Phyllis J. Cattron

CATERPILLAR INC.

LISTED	SYM.	LTPS♦	STPS♦	IND. DIV.	REC. PRICE	RANGE (52-WKS.)	YLD.
NYSE	CAT	96.3	88.7	$1.20*	59	69 - 54	2.0%

UPPER MEDIUM GRADE. THE COMPANY IS THE LARGEST EARTHMOVING EQUIPMENT MANUFACTURER IN THE WORLD.

Options Traded on ASE



CAPITALIZATION: (12/31/88)

	(000)	(%)
Long-Term Debt	$ 1,428,000	24.9
Defer. Inc. Tax	185,000	3.3
Com. & Surp.	4,113,000	71.8
Total	$5,726,000	100.0

Shs. (np)-101,414,138

INTERIM EARNINGS:

Qtr.	3/31	6/30	9/30	12/31
1985	d0.72	0.51	1.33	0.88
1986	1.13	1.41	d0.26	d1.51
1987a	d0.85	1.20	1.46	1.37
1988	1.16	1.44	1.87	1.61
1989	1.39	1.39	...	...

INTERIM DIVIDENDS:

Amt.	Dec.	Ex.	Rec.	Pay.
0.1875Q	6/8/88	7/14/88	7/20/88	8/20/88
0.1875Q	10/12	10/18	10/24	11/19
0.30Q	12/14	1/13/89	1/20/89	2/20/89
0.30Q	4/12/89	4/18	4/24	5/20
0.30Q	6/14	7/14	7/20	8/19

BACKGROUND:

Caterpillar Inc. designs, manufactures and markets products in two principal categories. Earthmoving, construction, and materials handling machinery and equipment, which accounted for 80% of sales, (79% of operating income) in 1988, includes such products as track-type tractors, bulldozers, rippers, track and wheel loaders, lift trucks, pipe layers, and motor graders. Engines, 20% (21%), are used for various applications and range from 42 to 4,910 horsepower and in generator configurations from 45 to 7,300 kilowatts. CAT has subsidiaries in seven countries and affiliates in Japan and India.

RECENT DEVELOPMENTS:

For the quarter ended 6/30/89 net income slipped 3% to $141.0 million versus $145.0 million a year ago. Sales advanced 17% to $2.98 billion versus $2.56 billion last year. Most of the sales increase can be attributed to CAT's new reporting system which added five additional calendar days to this quarter, and stronger demand outside the U.S. The benefit of increased sales was more than offset by higher costs. Revenues of financial subsidiaries increased 24% to $57 million.

PROSPECTS:

CAT's profits from affiliated companies, especially its Japanese affiliate Shin Caterpillar Mitsubishi, should continue to rise. The Company will continue to be pressured by increased start-up costs and a stronger dollar. The cost of materials, especially steel, and higher employment to support business will also affect results. CAT'S factory modernization program will significantly improve results over the long term. Results will be further enhanced by the Company's continued commitment to an aggressive cost reduction program. In the U.S. dealer inventories should remain above normal levels.

STATISTICS:

YEAR	GROSS REVS. ($mill.)	OPER. PROFIT MARGIN %	RET. ON EQUITY %	NET INCOME ($mill.)	WORK CAP. ($mill.)	SENIOR CAPITAL ($mill.)	SHARES (000)	EARN. PER SH.$	DIV. PER SH.$	DIV. PAY. %	PRICE RANGE	P/E RATIO	AVG. YIELD %
79	7,613.2	13.0	16.0	491.6	1,221	951.9	86,434	5.69	2.10	37	62⅞ - 49⅛	9.8	3.7
80	8,597.8	9.7	16.5	564.8	1,221	931.6	86,493	6.53	2.33	36	64 - 43½	8.2	4.3
81	9,154.5	9.9	15.0	578.9	1,175	960.9	87,591	6.64	2.40	36	73¼ - 49⅝	9.3	3.9
82	6,469.0	d	—	d180.0	2,236	2,389.0	88,266	d2.04	2.40	—	55¼ - 33⅛	—	5.4
83	5,424.0	d	—	d345.0	1,807	1,894.0	95,154	d3.74	1.50	—	49½ - 37⅜	—	3.5
84	6,576.0	d	—	d428.0	976	1,384.0	96,796	d4.47	1.25	—	52¾ - 28⅜	—	3.1
85	6,725.0	4.5	6.5	198.0	1,240	1,177.0	98,379	2.02	0.50	25	43⅛ - 29	17.9	1.4
86	7,321.0	1.9	2.4	76.0	1,183	963.0	98,832	0.77	0.50	65	55⅜ - 36⅝	59.7	1.1
87	8,180.0	5.9	8.9	a319.0	1,421	900.0	101,423	a3.20	0.50	16	74¾ - 39⅞	17.9	0.8
88	**10,255.0**	**9.0**	**15.0**	**616.0**	**1,882**	**1,428.0**	**101,414**	**6.07**	**0.75**	**12**	**68½ - 53⅞**	**10.1**	**1.2**

♦Long-Term Price Score — Short-Term Price Score; see page 4a. STATISTICS ARE AS ORIGINALLY REPORTED. a-Before extraordinary credit of $31.0 million ($0.30 per share).

INCORPORATED:
April 15, 1925 — CA

PRINCIPAL OFFICE:
100 N.E. Adams St.
Peoria, IL 61629-7310
Tel.: (309) 675-1000

ANNUAL MEETING:
In April

NUMBER OF STOCKHOLDERS:
32,789

TRANSFER AGENT(S):
First Chicago Trust Company of N.Y.

REGISTRAR(S):

INSTITUTIONAL HOLDINGS:
No. of Institutions: 597
Shares Held: 69,554,606

OFFICERS:
Chairman & C.E.O.
G. A. Schaefer
President
P. P. Donis
Secretary
R. R. Thornton
Treasurer
L. A. Kuchan

Company	Yr. End	Price-Earnings Ratio (High-Low) 1984	1985	1986	1987	1988	Dividend Payout Ratio (%) 1984	1985	1986	1987	1988	Yield (High % - Low %) 1984	1985	1986	1987	1988
SPECIALTY & OTHER PRODUCERS (cont'd)																
COPPERWELD CORP	DEC	NM - NM	NM - NM	NM - NM	15 - 6	8 - 4	NM	NM	0	0	8	2.5 - 5.0	1.4 - 2.6	0.0 - 0.0	0.0 - 0.0	1.1 - 2.2
KEYSTONE CONS INDUSTRIES INC	DEC	NM - NM	NM - NM	NM - NM	20 - 5	NM - NM	NM	NM	NM	0	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
LUKENS INC	DEC	18 - 11	NM - NM	10 - 7	15 - 4	8 - 6	44	NM	28	18	18	2.4 - 4.0	3.0 - 4.3	2.9 - 4.1	1.2 - 4.6	2.1 - 3.0
NATIONAL-STANDARD CO	SEP	10 - 6	69 - 50	31 - 24	NM - NM	9 - 7	11	154	83	NM	0	1.1 - 1.7	2.2 - 3.1	2.7 - 3.5	1.4 - 3.9	0.0 - 0.0
* NUCOR CORP	DEC	14 - 8	14 - 8	21 - 13	21 - 12	15 - 11	11	10	14	15	12	0.8 - 1.4	0.7 - 1.3	0.7 - 1.1	0.7 - 1.2	0.8 - 1.1
QUANEX CORP	OCT	66 - 34	11 - 5	NM - NM	36 - 13	8 - 3	0	0	NM	0	4	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.5 - 1.4
* TIMKEN CO	DEC	17 - 13	NM - NM	NM - NM	NM - 54	18 - 11	51	NM	NM	128	30	3.0 - 4.1	3.4 - 4.4	1.9 - 2.5	1.2 - 2.4	1.7 - 2.6
MISCELLANEOUS SUPPLIERS																
CLEVELAND-CLIFFS INC	DEC	11 - 7	15 - 11	NM - NM	11 - 5	9 - 4	43	69	NM	3	0	3.8 - 5.9	4.5 - 6.0	1.8 - 5.8	0.2 - 0.5	0.0 - 0.0
HANNA (M.A.) CO	DEC	NM - NM	NM - NM	NM - NM	12 - 7	6 - 4	NM	NM	NM	16	10	1.7 - 2.4	1.9 - 2.4	1.5 - 2.5	1.4 - 2.4	1.5 - 2.6
WEAN INC-PA	DEC	NM - NM	NM - NM	NM - NM	NM - NM	NM - NM	NM	NM	NM	NM	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
DIVERSIFIED MACHINERY																
* BRIGGS & STRATTON	JUN	13 - 11	13 - 11	17 - 12	23 - 11	17 - 12	66	69	68	87	77	5.0 - 6.2	5.1 - 6.2	4.0 - 5.6	3.8 - 7.9	4.4 - 6.6
* COMBUSTION ENGINEERING INC	DEC	12 - 9	NM - NM	22 - 16	29 - 15	NM - NM	61	NM	59	65	NM	5.2 - 7.1	4.3 - 6.9	2.7 - 3.7	2.2 - 4.4	2.7 - 3.9
* COOPER INDUSTRIES INC	DEC	18 - 12	15 - 10	17 - 12	21 - 11	14 - 11	71	54	53	48	41	4.0 - 5.8	3.6 - 5.4	3.1 - 4.5	2.3 - 4.3	2.9 - 3.6
EMHART CORP	DEC	10 - 8	11 - 9	NM - NM	16 - 9	12 - 9	39	48	NM	44	41	4.0 - 5.2	4.2 - 5.3	3.3 - 4.6	2.8 - 4.8	3.4 - 4.4
* FOSTER WHEELER CORP	DEC	16 - 10	20 - 14	21 - 15	NM - NM	21 - 14	43	58	63	489	54	2.6 - 4.4	2.8 - 4.2	2.9 - 4.1	1.8 - 4.6	2.6 - 3.8
* INGERSOLL-RAND CO	DEC	21 - 13	15 - 12	14 - 11	23 - 11	15 - 10	96	69	54	53	35	4.7 - 7.3	4.6 - 5.9	3.8 - 5.1	2.3 - 4.6	2.3 - 3.4
MACHINE TOOLS																
* ACME-CLEVELAND CORP	SEP	NM - NM	28 - 14	NM - NM	24 - 12	NM - NM	NM	57	NM	56	NM	1.5 - 3.2	2.1 - 4.0	2.7 - 4.4	2.4 - 4.7	2.9 - 5.3
* BROWN & SHARPE MFG CO	DEC	7 - 4	15 - 9	NM - NM	NM - NM	26 - 16	7	11	NM	NM	43	1.0 - 1.5	0.7 - 1.2	1.3 - 2.3	1.6 - 2.6	1.7 - 2.6
* CINCINNATI MILACRON INC	DEC	44 - 25	NM - NM	27 - 18	NM - NM	26 - 18	90	NM	73	NM	71	2.1 - 3.6	2.7 - 4.8	2.8 - 4.1	2.1 - 5.1	2.7 - 4.0
* CROSS & TRECKER CORP	SEP	92 - 49	31 - 22	NM - NM	NM - NM	NM - NM	242	84	NM	NM	NM	2.6 - 5.0	2.7 - 3.8	2.9 - 6.2	0.0 - 0.0	0.0 - 0.0
GLEASON CORP	DEC	NM - NM	NM - 84	NM - NM	NM - NM	NM - NM	NM	0	0	NM	NM	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
* MONARCH MACHINE TOOL CO	DEC	37 - 23	27 - 21	66 - 43	NM - 99	53 - 33	123	113	267	667	174	3.3 - 5.5	4.1 - 5.4	4.0 - 6.2	3.3 - 6.7	3.3 - 5.2
AGRICULTURAL MACHINERY																
* DEERE & CO	OCT	26 - 16	74 - 54	NM - NM	NM - NM	12 - 8	65	222	NM	NM	16	2.5 - 4.1	3.0 - 4.1	2.1 - 3.5	0.6 - 1.1	1.3 - 1.9
KUBOTA LTD -ADR	†MAR	35 - 28	61 - 40	43 - 25	46 - 24	NA - NA	68	107	49	36	NA	1.9 - 2.4	1.8 - 2.7	1.2 - 2.0	0.8 - 1.5	0.8 - 1.4
* VARITY CORP	†JAN	NM - NM	NM - 94	NM - NM	18 - 9	22 - 11	NM	0	NM	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
POLLUTION CONTROLS																
* BROWNING-FERRIS INDS	SEP	17 - 10	20 - 11	25 - 16	31 - 15	19 - 14	37	34	34	35	32	2.2 - 3.6	1.7 - 2.9	1.4 - 2.1	1.1 - 2.3	1.6 - 2.3
* WASTE MANAGEMENT INC	DEC	16 - 9	22 - 13	17 - 10	33 - 19	21 - 15	26	26	15	25	22	1.6 - 2.8	1.2 - 2.1	0.9 - 1.6	0.7 - 1.3	1.1 - 1.4
* ZURN INDUSTRIES INC	†MAR	11 - 7	15 - 9	16 - 11	20 - 10	NA - NA	46	47	46	44	NA	4.3 - 6.2	3.2 - 5.3	2.9 - 4.0	2.2 - 4.5	2.3 - 3.6
CONSTRUCTION AND MATERIAL HANDLING EQUIPMENT																
AMDURA CORP	DEC	NM - NM	NM - NM	NM - NM	21 - 8	16 - 7	NM	NM	NM	0	0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
* CATERPILLAR INC	DEC	NM - NM	21 - 14	72 - 48	23 - 12	11 - 9	NM	25	65	16	12	2.4 - 4.4	1.2 - 1.7	0.9 - 1.4	0.7 - 1.3	1.1 - 1.4
* CLARK EQUIPMENT CO	DEC	30 - 18	NM - NM	NM - NM	NM - NM	14 - 9	86	NM	NM	NM	0	2.8 - 4.7	3.4 - 4.6	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
MISCELLANEOUS INDUSTRIAL MANUFACTURING																
* BLACK & DECKER CORP	SEP	15 - 9	NM - NM	52 - 30	28 - 14	15 - 10	30	NM	118	42	24	2.0 - 3.4	2.4 - 3.7	2.3 - 4.0	1.5 - 3.1	1.6 - 2.3
CURTISS-WRIGHT CORP	DEC	NM - 78	NM - NM	13 - 10	12 - 8	11 - 9	308	NM	32	28	31	2.4 - 4.0	2.7 - 3.9	2.5 - 3.2	2.3 - 3.7	2.9 - 3.4
* DOVER CORP	DEC	14 - 10	16 - 11	20 - 15	24 - 13	17 - 12	28	30	37	31	28	2.0 - 2.7	1.9 - 2.6	1.9 - 2.4	1.3 - 2.3	1.7 - 2.3
* ILLINOIS TOOL WORKS	DEC	12 - 9	29 - 22	17 - 10	24 - 12	16 - 11	26	54	23	19	17	2.1 - 2.9	1.9 - 2.5	1.3 - 2.3	0.8 - 1.5	1.0 - 1.5
* INTERLAKE CORP	DEC	8 - 6	11 - 9	16 - 9	12 - 7	12 - 10	39	51	48	29	39	5.1 - 6.3	4.8 - 6.0	3.1 - 5.3	2.5 - 4.0	3.1 - 3.8
* JOHNSON CONTROLS INC	SEP	10 - 8	11 - 8	15 - 10	18 - 9	14 - 9	35	39	42	48	39	3.4 - 4.4	3.7 - 4.8	2.8 - 4.2	2.7 - 5.2	2.9 - 4.4
* PARKER-HANNIFIN CORP	JUN	14 - 9	13 - 9	16 - 10	26 - 13	18 - 12	39	36	38	43	37	2.8 - 4.1	2.8 - 3.9	2.5 - 3.8	1.6 - 3.3	2.1 - 3.1
REECE CORP	DEC	24 - 17	86 - 47	69 - 41	25 - 13	16 - 12	0	0	0	0	25	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	1.6 - 2.1
SPS TECHNOLOGIES INC	DEC	15 - 9	18 - 10	17 - 12	22 - 9	12 - 7	36	41	34	44	27	2.5 - 3.8	2.3 - 4.1	2.0 - 2.9	2.0 - 4.6	2.3 - 4.2
* SNAP-ON TOOLS CORP	DEC	13 - 9	15 - 11	20 - 13	22 - 11	17 - 12	32	40	38	33	32	2.5 - 3.4	2.7 - 3.6	1.9 - 3.0	1.5 - 2.9	2.0 - 2.7
STARRETT (L.S.) CO -CL A	JUN	13 - 10	12 - 8	13 - 10	13 - 9	12 - 9	44	30	31	27	26	3.3 - 4.2	2.6 - 3.5	2.4 - 3.1	2.1 - 3.1	2.2 - 3.0
STEEGO CORP	†APR	NM - NM	NM - 81	NM - NM	NM - NM	NA - NA	NM	193	NM	NM	NA	2.6 - 4.2	1.5 - 2.4	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
SUNDSTRAND CORP	DEC	14 - 9	14 - 10	27 - 20	35 - 19	NM - NM	50	45	74	97	NM	3.5 - 5.2	3.3 - 4.5	2.8 - 3.7	2.8 - 5.0	3.1 - 4.3
* TRINOVA CORP	DEC	9 - 7	9 - 7	29 - 17	21 - 10	14 - 10	21	23	51	25	24	2.5 - 3.2	2.6 - 3.2	1.8 - 3.1	1.2 - 2.6	1.7 - 2.4

Note: Data as originally reported.   ** Company included in the Standard & Poor's 500.*   *† Of the following calendar year.*

Data by Standard & Poor's Compustat Services, Inc.

CATERPILLAR INC.

CAPITAL STRUCTURE

LONG TERM DEBT

Issue	Rating	Amount Outstanding	Times Charges Earned 1988	Times Charges Earned 1987	Interest Dates	Call Price	Price Range 1988	Price Range 1987
debenture 5.30s, 1992	A2	$15,000,000			A&O 1	100.00	91 3/8- 88 5/8	93 1/8- 88
debenture 6 7/8s, 1992	A2	22,000,000			J&D 1	100.00	94 3/4- 91	98 1/8- 93
debenture 8.60s, 1999	A2	70,000,000			M&N 1	[1]102.58	97 1/2- 91 1/2	86 3/4- 90
debenture 8 3/4s, 1999	A2	56,000,000			M&N 1	[1]103.00	97 - 93 1/4	91 - 91 7/8
debenture 8s, 2001	A2	132,000,000	4.19	3.20	M&N 1	[1]103.60	93 - 85	80 1/8- 84 3/4
debenture 10 1/8s, due 1998-2017	A2	99,000,000			J&D 1	[1]109.25	101 5/8- 94 3/4	99 1/8- 93 1/2
debenture 6s, 2007	A2	113,000,000			......	100.00	70 1/4- 64 3/8	65 1/4- 62
three-year extendible notes, due 1997	A2	13,000,000			J&J 1	[3]100.00	103 - 97 3/8	101 1/2- 100 5/8
notes, due 1993	A2	100,000,000			J&D 1	N.C.	105 1/4- 98 3/8	100 1/2- 100 5/8
Other long term debt	......	56,000,000			......	......	......	......

SUBSIDIARY DEBT

Issue	Rating	Amount Outstanding	Interest Dates	Call Price	Price Range 1988	Price Range 1987
Financial Services N.V.:						
Coupon Gtd. notes, due 1994	A2	$68,000,000	......	[3]100.00	......	......
Coupon Gtd. notes, due 1992	A2	184,000,000	......	100.00	......	......

CAPITAL STOCK

Issue	Par Value	Rating	Shares Outstanding	Earned per Sh. 1988	Earned per Sh. 1987	Divs. per Sh. 1988	Divs. per Sh. 1987	Call Price	Price Range 1988	Price Range 1987
Common	No par	......	[2]101,410,534	[2]$6.07	[2]$3.51	$0.75	$0.50	......	68 1/2- 53 7/8	74 3/4- 39 7/8

[1]Subject to change, see text. [2]Based on average shares as reported by company, 1987, $3.20 bef. extraord. credit. [3]See text.

HISTORY

Incorporated in Delaware on May 22, 1986 as successor to Caterpillar Tractor Co. incorporated [illegible] 1925, in California to merge C.L. Best [illegible] Co., and Holt Manufacturing Co. In 1928 [illegible] Russell Grader Manufacturing Co. (dis-[illegible] June 12, 1929).

[illegible] 1951, acquired Trackson Co., Milwaukee, [illegible] of front-end shovels and side-boom [illegible] as auxiliary equipment for Caterpillar tractors, which operated as a wholly-owned [illegible] until dissolved in 1956.

[illegible] Aug., 1956, issued 20,000 common shares in [illegible] for entire outstanding capital stock of [illegible] Manufacturing Co., former parts [illegible] subcontractor for Caterpillar, with plant [illegible] Davenport, Iowa (dissolved Dec. 31, 1959).

[illegible] 1965, in a "pooling of interests", 1,891,678 [illegible] of common stock were issued for the net [illegible] of Towmotor Corp., maker of industrial lift [illegible] and tractors, material carriers and parts.

[illegible] Aug. 1981, Co. acquired International Har-[illegible] Solar Turbine International division for [illegible] $505,000,000.

[illegible] July, 1985 Sunstrand Corp. acquired the [illegible] division of Solar Turbines Inc., a [illegible] owned subsidiary of Co. for $102,000,000 in [illegible] plus deferred payments of $19,000,000 over [illegible] years.

[illegible] March 1988, Caterpillar Financial Services [illegible], a wholly owned subsidiary of Co. has [illegible] a new Australian subsidiary, Caterpillar [illegible] Australia Limited. The wholly owned [illegible] will provide a full range of competitive [illegible] and wholesale financing for Caterpillar deal-[illegible] and customers in Australia.

On June 22, 1988, Co. acquired Carter Machin-[illegible] Company, Inc., its dealer headquartered in [illegible] VA Co. will operate the dealership as a [illegible] owned subsidiary of Co. Terms of the [illegible], which includes among other things an [illegible] of shares between the two firms. The Co. [illegible] 1,128,558 shares of CO. common stock [illegible] the acquisition.

Proposed Joint Venture: In July 1988, Co. and [illegible] Motors Ltd. of Calcutta, India, signed a [illegible] venture agreement to manufacture certain [illegible] of Co.'s diesel and natural gas engines. The [illegible] venture, which requires approval of the [illegible] government, will produce and sell four [illegible] of Co.-designed engines for a wide range of [illegible] applications.

A license agreement established with Hindustan [illegible] in 1985 for the manufacture of Co.'s [illegible] will be transferred to the joint venture.

BUSINESS

Caterpillar Inc. together with its consolidated [illegible] designs, manufactures and markets [illegible] in two principal categories:

(1) Earthmoving, construction, and materi-[illegible] handling machinery such as — track, wheel, [illegible] tractors, track and wheel loaders, lift [illegible], self guided materials handling vehicles, [illegible] motor graders, wheel tractor-scrapers, [illegible] and wheel excavators, backhoe loaders, track [illegible] wheel skidders, log loaders, tree harvestors, [illegible] trucks, paving products, and related [illegible] and

(2) Engines for earthmoving and construc-[illegible] machines; on-highway trucks and locomotives, [illegible] petroleum, agricultural, industrial, and [illegible] applications; electric power generation sys-[illegible] and related parts. Caterpillar diesel and nat-[illegible] engines meet power needs ranging from [illegible] horsepower (31 to 5,440 kilowatts); and, [illegible] set configurations, from 45 to 4,910 [illegible]. Turbines range from 1,340 to 23,200 [illegible] (1,000 to 17,300 kilowatts); and, in gen-[illegible] configurations, from 950 to 17,000 kilo-[illegible]

The Company conducts its operations in both [illegible] of its business under highly competitive [illegible], including intense price competition. It [illegible] emphasis in its competitive activities [illegible] high quality and performance of its products and the service support for such products which is supplied by its dealers. Although no one competitor is believed to produce all of the same types of machines and engines produced by the Company, there are numerous companies, large and small, who compete with the Company in the sale of each of its products.

The Company's products are sold primarily under the marks "Caterpillar", "Cat" and "Solar". The Company is also introducing two new trademarks. Machines are distributed principally through a worldwide organization of independent dealers, approximately 87 located in the United States and 132 located outside the United States. Worldwide these dealers have more than 1,100 places of business. Diesel and natural gas engines are sold through the worldwide dealer organization and to other manufacturers for use in products manufactured by them. Caterpillar dealers do not deal exclusively in the Company's products, although in most cases sales and servicing of the Company's products are the dealer's principal business. Turbines are sold through a sales force employed by Solar Turbines Incorporated, a wholly owned subsidiary, or its subsidiaries and associated companies. These employees are from time to time assisted by contract personnel. Caterpillar Financial Services Corporation, a wholly owned subsidiary, provides financing of sales and leases of the Company's products for Caterpillar dealers and customers.

The Company owns a number of patents and trademarks relating to the products manufactured by it, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of the Company's business and may continue to be of value in the future. The Company does not regard any segment of the Company's business as being dependent upon any single patent or group of patents.

Sales by Business Segments (in millions $):

	1988	1987	1986
Mach. & equip.	8,200	6,530	5,760
Engines & related parts...........	2,050	1,650	1,560
Total.......	10,250	8,180	7,320

PROPERTIES

Manufacturing activities are carried on in seventeen plants in the United States, three in France, two each in Brazil, and one each in Australia, Belgium, Canada, Indonesia, Mexico and the United Kingdom. Remanufcaturing is carried on in four plants, two in the United States, one each in Canada and Mexico. These facilites have a total area under roof of 45,500,000 square feet, of which approximately 36,000,000 square feet are used for manufacturing, and 448,000 square feet for remanufacturing. All except 748,000 square feet of this property is owned in fee. Leased premises in San Diego, California, total 665,000 square feet, for which the lease will expire on July 31, 1993.

Plant were closed in Davenport, Iowa and in Bettendorf, Iowa in 1988, reducing manufacturing space by approximately 2,630,000 square feet. Closing of the Dallas, Oregon plant is expected to be completed in late 1989. This will reduce total manufacturing space by an additional 330,000 square feet Other announced consolidations at certain U.S. plants will reduce manufacturing space by approximately 3,000,000 square feet within the next several years.

Four major parts warehousing and distribution facilities are located in the United States, and eight are located outside the U.S. All of these facilities are owned in fee (except for 19,000 square feet which is leased at the Johannesburg facility). In addition, there are thirteen emergency parts depots and service centers located in the United States and three outside the U.S. (in Australia, Canada and the Republic of Singapore). In the U.S. and Canada, nine of these emergency parts depots are owned in fee and the others are leased. These leased facilities are located in Anchorage, Alaska; New Orleans, Louisiana; Ramsey, New Jersey; and Odessa, Texas. The Odessa facility is scheduled to be closed in March 1989. The emergency parts depots which were previously leased in Australia, Singapore and San Diego, California have been consolidated with existing warehouse facilities. The Company also owns a distribution center for lift trucks in New Orleans, Louisiana, which contains 81,000 square feet.

All of the above facilities operate year round, and generally, with the exception of three parts depots and the lift truck distribution center, on a two-shift basis.

In addition, the Company owns buildings in or near Peoria, Illinois, totaling 3,000,000 square feet of floor space which include an Administration Building, a Data Processing facility and a Technical Center for Engineering and Research. Research facilities also include a 2,532 acre proving ground near Peoria and an 8,626 acre proving ground near Phoenix, Arizona. An office building in Geneva, Switzerland has approximately 200,000 square feet of office space, is located on 4 acres of land and is the headquarters of Caterpillar Overseas, S.A., a wholly-owned subsidiary. These properties are owned in fee.

On June 22, 1988, the Company purchased Carter Machinery Company, Incorporated, its dealer headquartered in Salem, Virginia. This facility has a total area of 153,000 square feet. There are also twelve distribution stores located in Virginia and West Virginia, totaling 303,000 square feet. All of these facilities are owned in fee, except for four leased facilities (Abington, Newport News and Oakwood, Virginia and Pineville, West Virginia).

The Company's manufacturing operations are highly integrated. As a result, several of the Company's plants are involved in the manufacture of both machines and engines. Four plants in the United States are primarily involved in the production of diesel and natural gas engines for incorporation into the Company's machines and for sale to other equipment manufacturers and dealers. Four other plants in the United States and one outside the United States are involved solely in the production of turbine engines and related systems components for Solar Turbines Incorporated. Three plants (two in the United States and one outside the United States) are involved in the manufacture of paving products. All other plants are involved primarily in the production of machines. Approximately 21% of the Company's manufacturing space worldwide is utilized for the manufacture of deisel engines and approximately 3% of the Company's space is utilized for the manufacture of turbine engines and components. All of the Company's distribution facilities, with the exception of those related to Solar, are involved in the storage and distribution of parts for both machines and engines. Also, the research and development activities carried on at the Technical Center involve both machines and engines.

Affiliated companies (50% owned by the Company) are located in the United States, Japan, India and Italy. Shin Caterpillar Mitsubishi Ltd. (formerly Caterpillar Mitsubishi Ltd.) has a 2,700,000 square feet plant near Tokyo, Japan; and a 745,000 square foot facility at Akashi, Japan; Tractor Engineers Limited has a 64,000 square feet plant near Bombay, India; Mec-Track, S.p.A., has a 130,000 square foot plant near Bazzano, Italy; and Advanced Filteration Systems Inc. has a 120,000 square feet facility at Champion, Illinois.

SUBSIDIARIES

Caterpillar Americas Co. (Del.)
Caterpillar of Australia Ltd. (Australia)
Caterpillar Brasil S.A. (Brasil)
Caterpillar Capital Co., Inc. (Del.)
Carter Machinery Co., Inc. (Del.)
Advanced Filteration Systems, Inc. (Del.) (50%)
Caterpillar Paving Products, Inc. (Ok)
Caterpillar MHI Marketing Ltd. (Japan)
Mac-Track S.p.A. (Italy) (50%)
Rapidparts (Mich.) (50%)
Caterpillar Materials Rontiers S.A. (France)
Caterpillar Insurance Services, Inc. (Ill.)

Caterpillar Commercial N.V. (Belgium)
Caterpillar of Delaware, Inc. (Del.)
Caterpillar Industrial Products, Inc. (Del.)
Caterpillar Export Co. (Del.)
Caterpillar Export Ltd. (Virgin Islands)
Caterpillar Finance Corp. (Del.)
Caterpillar of Canada Ltd. (Canada)
Caterpillar Overseas Credit Corp. S.A. (Switzerland)
Caterpillar Financial Services Corp. (Del.)
[1]Equipment Financing Associates (Ill.) (20%)
Caterpillar Financial Australia Limited
Caterpillar Financial Services Ltd. (Canada)
Caterpillar Financial Services N.V. (Netherlands Antilles)
Caterpillar Industrial Inc. (Ohio)
Caterpillar Insurance Co. Ltd. (Bermuda)
Caterpillar Logistics Services Inc. (Del.)
Caterpillar Overseas S.A. (Switzerland)
Caterpillar (Africa) (Pty) Ltd. (South Africa)
Caterpillar Belgium S.A. (Belgium)
Caterpillar Group Services S.A. (Belgium)
Caterpillar Far East Ltd. (Hong Kong)
Caterpillar Australasia Ltd. (Hong Kong)
Caterpillar China Ltd. (Hong Kong)
Caterpillar France S.A. (France)
[2]Shin Caterpillar Mitsubishi Ltd. (Japan) (50%)
CM General Services Ltd. (Japan)
Caterpillar (U.K.) Ltd. (England)
[3]P.T. Natra Raya (Indonesia) (80%)
[4]S.A. des Fonderies et Acieries de Paris-Seine (France) (99.9%)
Solar Turbines Canada Ltd. (Canada)
Solar Turbines S.A. (France)
[5]Tractor Engineers Ltd. (India) (50%)
Caterpillar Panamerican Co. (Del.)
Caterpillar Services Ltd. (Del.)
Caterpillar Venture Capital, Inc. (Del.)
Caterpillar World Trading Corp. (Del.)
CATPAC Two, Inc. (Del.)
CONEK S.A. de C.V. (Mexico)
Inmobiliaria CONEK, S.A. (Mexico)
Production Technology Inc. (Del.)
Solar Turbines Inc. (Del.)
Solar Turbines International Co. (Del.)
Solar Turbines Overseas Ltd. (Del.)
Energy Services International Ltd. (Bermuda)
Turbines Solar S.A. de C.V. (Mexico)

[1]Equipment Fiancing Associates is 80% owned by General Electric Credit Corp.

[2]Caterpillar Mitsubishi Ltd. is 50% owned by Mitsubishi Heavy Industries, Ltd.

[3]P.T. Natra Raya is 20% owned by P.T. Trakindo Utama.

[4]S.A. des Fonderies et Acieries de Paris-Seine is owned 99.9% by Caterpillar Overseas S.A. Qualifying shares and minority interests comprise less than 1% of present ownership.

[5]Tractor Engineers Ltd. is 50% owned by Larsen & Toubro, Ltd.

MANAGEMENT

Officers

G.A. Schaefer, Chmn.
D.V. Fites, Pres. & Chief Oper. Off.
G.S. Flaherty, Exec. Vice-Pres.
P.C. Guerindon, Exec. Vice-Pres.
J.W. Wogsland, Exec. Vice-Pres.
R.R. Thornton, Sec.
L.A. Kuchan, Treas.
J.W. Kenning, Contr.
S.L. Holt, Asst. Sec.

Vice-Presidents

G.A. Barton	D.F. Coonan
B.P. Sorel	R.C. Dryden
C.E. Rager	D.A. Lewis
R.D. Saurs	F.N. Grimsley
J.N. Hanson	Lawrence Williams
J.D. Winters	C.N. Fangman
K.G. Johnson	W.M. Zimmerman
R.A. Benson	

Directors

(Showing Principal Corporate Affiliations)

Lilyan H. Affinito, Vice-Chmn., MAXXAM Group Inc.; member of Board of Trustees, Cornell University; Dir., National Multiple Sclerosis Society; MAXXAM Group Inc., Chrysler Corp., The Ogilvy Group, Tambrands, Inc., Jostens Inc., Lillian Vernon Corp. and Metropolitan Transit Authority.

Donald V. Fites, Exec. Vice-Pres. of Co.; Dir., First National Bank of Peoria, Keep America Beautiful, Farm & Industrial Equipment Institute; Trustee, Farm Foundation, The Methodist Medical Center of Illinois, Knox College; and member of Salvation Army Advisory Board.

John W. Fondahl, Charles H. Leavell Professor of Civil Engineering at Stanford University, Stanford, Cal.

Louis V. Gerstner, Jr., Pres., American Express Co.; Dir., American Express Co., Lincoln Center for the Performing Arts, Melville Corp., Squibb Corp., The New York Times Co., and Shearson Lehman Holdings Inc.

Robert E. Gilmore, Former Pres. & Chief Oper. Off. of Co.; Dir., Santa Fe Southern Pacific Corp., Santa Fe Pacific Pipeline Partners; member, Associate Board of Trustees of Bradley Univ.

W.H. Helmerich, III, Chmn., Chief Exec. O[illegible] Dir., Helmerich & Payne, Inc.; Vice-Chmn. [illegible] Banks of Mid-America; Dir., First National [illegible] and Trust Co. of Tulsa, Independent [illegible] Association of America, Oklahoma [illegible] Research Foundation, Oklahoma Health [illegible] Foundation, Inc., Atwood Oceanics, Inc., [illegible] Corp. and Combustion Engineering, Inc.; [illegible] Hillcrest Medical Center, Retina Research [illegible] tion, and The Northwestern Mutual Life [illegible] Co. (Milwaukee).

Charles F. Knight, Chmn., Chief Exec. [illegible] Dir., Emerson Electric Co.; Trustee, [illegible] Botanical Garden, Olin Foundation and [illegible] ton Univ.; Dir., Barnes Hospital, Baxter [illegible] tional Inc., Southwestern Bell Corp., The [illegible] Petroleum Company p.l.c., London England [illegible] Anheuser-Busch Cos. Inc.

Lee L. Morgan, Retired Chmn. & Chief [illegible] Off. of Co.; Dir., Minnesota Mining & Manufac[illegible] ing Co., Mobil Corp., The Boeing Company, [illegible] Management Inc. and the New York [illegible] Exchange, Inc.; Trustee, Committee for [illegible] Development and Monmouth College.

George A. Schaefer, Chmn. & Chief Exec. [illegible] of Co.; Dir., First National Bank of Chicago, [illegible] Chicago Corp. and Helmerich & Payne, [illegible] member, Board of Trustees, Bradley Univ[illegible] and Proctor Community Hospital.

Rawleigh Warner, Jr., Former Chmn., [illegible] Exec. Off. & Dir., Mobil Corp.; Dir., [illegible] Express Co., American Telephone & Te[illegible] Co., Chemical Banking Corp., Chemical [illegible] Allied-Signal, Inc. and Squibb Corp.

James W. Wogsland, Exec. Vice-Pres. of [illegible] Dir., Peoria Area Community Foundation, [illegible] tion Mutual Insurance Co. and [illegible] National Bank, Peoria; Trustee, Eureka [illegible] Eureka, Ill.

Jerry R. Junkins, Chmn., Pres. & Chief [illegible] Off., Texas Instruments, Inc.; Dir., [illegible] Gamble Co.; member, Dallas Citizens Council [illegible] Greater Dallas Chamber of Commerce.

Auditors: Price Waterhouse.

Shareholder Relations: Sona L. Holt, [illegible] Treas. **Tel.:** (309) 675-4619.

Annual Meeting: In April.

No. of Stockholders: Dec. 31, 1988, 32,7[illegible].

No. of Employees: Dec. 31, 1988, 60,55[illegible].

General Offices: 100 N.E. Adams St., [illegible] 61629-7310. **Tel.:** (309) 675-1000.

INCOME ACCOUNTS

COMPARATIVE CONSOLIDATED INCOME ACCOUNT, YEARS ENDED DEC. 31

(in millions of dollars)

	1988	[1]1987
Sales	10,255	8,180
Revenues of financial subsidiaries	180	114
Total sales & revenues	10,435	8,294
[2]Cost of goods sold	8,011	6,523
[2]Selling, general & administrative expense	1,242	1,071
Research & development expenses	182	159
Interest expense of financial subsidiaries	76	43
Provision for plant closing & consolidation costs	......	......
Operating profit	924	498
Interest expense — excluding financial subsidiaries	264	209
Balance	660	289
Other income	182	170
Provision for income taxes	262	118
Profit of consolidated companies	580	341
Equity in profit (loss) of affiliated companies	36	(22)
Profit — before extraordinary credit	616	319
Extraordinary credit	......	[3]31
Net income	616	350
Profit employed in the business, beg. year	2,656	2,363
Common dividends	88	57
Profit employed in the business, year end	3,184	2,656
SUPPLEMENTARY P. & L. DATA:		
Deprec., depletion & amort.	434	425
Maintenance & repairs	453	351
Research & development	182	159

[1]Restated for the adoption of SFAS 94, "Consolidation of All Majority-owned Subsidiaries"

[2]Includes related portions of items shown under "Supplementary P & L data" below statement.

[3]Tax benefit from foreign tax credit carryfowards.

Consolidated Statement of Cash Flows, years ended Dec. 31 (in million $):

Cash flows from operating activities:	1988	[1]1987
Profit	616	350
Adjustments for noncash items:		
Depreciation & amortization	434	425
Other	(74)	144
Changes in assets and liabilities:		
Receivables	(355)	(319)
Refundable income taxes	15	(34)
Inventories	(598)	(124)
Payable to material suppliers & others	348	252
Other, net	(39)	(80)
Net cash provided by operating activities	347	614
Cash flows from investing activities:		
Expend. for land, build, mach., & equip.	(793)	(493)
Pro. from dis. of land, build, mach. & equip.	30	32
Invest. in & adv. to affil. cos.	(24)	(65)
Add. to finanical sub.'s receiv.	(833)	(580)
Collections of fin. sub.'s receiv.	411	200

ll, Chmn., Chief Exec. O
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ica; Dir., First National
Tulsa, Independent Pe
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, Chmn., Chief Exec. O
ctric Co.; Trustee, M
Olin Foundation and W
rnes Hospital, Baxter In
estern Bell Corp., The
y p.l.c., London England
, Inc.

Retired Chmn. & Chief
nnesota Mining & Manuf
, The Boeing Company,
and the New York S
ustee, Committee for Ec
Monmouth College.

rfer, Chmn. & Chief Exec.
National Bank of Chicago,
d Helmerich & Payne,
Trustees, Bradley Unive
unity Hospital.

r, Jr., Former Chmn., C
Mobil Corp.; Dir., Am
rican Telephone & Tele
nking Corp., Chemical
and Squibb Corp.

sland, Exec. Vice-Pres. of
Community Foundation, P
urance Co. and Com
oria; Trustee, Eureka C

s, Chmn., Pres. & Chief
ruments, Inc.; Dir., Pr
ber, Dallas Citizens Council
nber of Commerce.

aterhouse.

elations: Sona L. Holt,
75-4619.

In April.

ers: Dec. 31, 1988, 32,7
s: Dec. 31, 1988, 60,55
: 100 N.E. Adams St., Peo
309) 675-1000.

	1988	[1]1987
	10,255	8,180
	180	114
	10,435	8,294
	8,011	6,523
	1,242	1,071
	182	159
	76	43
	.....	.....
	924	498
	264	209
	660	289
	182	170
	262	118
	580	341
	36	(22)
	616	319
	......	[3]31
	616	350
	2,656	2,363
	88	57
	3,184	2,656
	434	425
	453	351
	182	159

	1988	[1]198
	616	350
	434	425
	(74)	144
	(355)	(319)
	15	(34)
	(598)	(124)
	348	252
	(39)	(80)
	347	614
	(793)	(493)
	30	32
	(24)	(65)
	(833)	(580)
	411	200

	(50)	(25)	41
...d for investing activities	(1,259)	(931)	(637)
...m financing activities:			
...aid	(77)	(50)	(49)
... incl. treas. shs. reissued	4	6	3
...res purchased	(86)	.....	.....
...m long-term debt issued:			
... financial subsidiaries	30	253	37
...ubsidiaries	341	250	119
... long-term debt:			
... financial subsidiaries	(264)	(62)	(307)
...ubsidiaries	(34)	(40)	.....
...orrowings, net:			
... financial subsidiaries	848	(221)	457
...ubsidiaries	117	130	121
...ded by financing activities	879	266	381
... rate changes on cash	(48)	40	41
... & short-term investments	(81)	(11)	(139)

... the adoption of SFAS 94, "Consolidation of All Majority-owned Subsidiaries"

...EETS

COMPARATIVE CONSOLIDATED BALANCE SHEET, AS OF DEC. 31

(in millions of dollars)

	1988	[1]1987	[1]1986
	74	155	166
...m investments	2,669	2,174	1,808
	114	130	92
...ome taxes	474	224	208
... prepaid expenses allocable to the following year	1,986	1,323	1,211
... assets	5,317	4,006	3,485
...chinery & equipment	6,385	6,303	6,317
	3,583	3,836	3,886
..., machinery & equipment	2,802	2,467	2,431
...riginal cost	107	96	97
...arks, & other intangibles	71	47	60
... & advances to affiliated companies	288	227	185
...ables, net	902	665	413
	199	123	90
	9,686	7,631	6,761
...owings, net	1,072	623	696
...al suppliers & others	1,495	1,351	1,182
... contributions for employee benefits	485	431	450
	30	19	12
	118	48	10
...debt	235	286	122
... liabilities	3,435	2,758	2,472
	1,953	1,287	1,134
...axes	185	21	6
... ($1 par)	824	827	714
... in the business	3,184	2,656	2,363
... translation adjustment	105	82	72
... equity	9,686	4,113	3,565
	6,866	7,631	6,761
	1,882	1,248	1,013

...OUNT — ANALYSIS

	780	491	331
	(217)	(135)	(93)
	(481)	(370)	(148)

...RESERVE — ANALYSIS

	417	412	436
	(175)	(102)	(72)
	(495)	(360)	(79)

... the adoption of SFAS 94, "Con-... Majority-owned Subsidiaries"

...ipally last-in, first-out method. ...ptions, inventories are stated on ...

...rials and work-in-process, ... goods, $1,096,000,000; sup-... $1,986,000,000.

	Cost	Related Reserves
	2,134	
	2,776	
	455	
	371	3,583
	23	
	224	
	402	
	6,385	3,583

...easury shs.: 1988, 23,470.

...ination of fully depreciated ...

... equity in Caterpillar Mitsubishi ... Engineers Ltd., India; Mec-... Caterpillar MHI Marketing Ltd., ... Inc., Michigan; Advanced ... Delaware and Turbines Solar ...

...nificant Accounting Policies

...SOLIDATION — The accompa-...ments include the accounts of ... all of its subsidiaries. In the ...988, the company adopted State-... Accounting Standards (SFAS) 94, ... All Majority-owned Subsidiaries." ...any's financial statements are ... the financial statements. Previously, these subsidiaries were reported on an equity basis. Prior years' financial statements have been restated for comparability and certain reclassifications have been made to conform prior years' data to the current format. Adopting the new accounting standard had no effect on consolidated profit, net assets, ownership, or the financial strength of the company.

The affiliated companies (50% interest or less) are accounted for by the equity method. Accordingly, the company's share of the affiliates' profit is included in the Consolidated Results of Operations as "Equity in profit (loss) of affiliated companies" and the cost of the company's investments in and advances to these affiliates plus its share of their retained profits are included in Consolidated Financial Position as "Investments in and advances to affiliated companies."

B. STATEMENT OF CASH FLOWS — In December 1988, the company adopted SFAS 95, "Statement of Cash Flows," and restated previously reported changes in financial position for 1987 and 1986. For purposes of this statement, the company considers short-term investments, which consist primarily of highly liquid investments with original maturities of three months or less, to be cash equivalents.

C. SALES AND REVENUE RECOGNITION — Sales of machines and engines are generally unconditional sales that are recorded when invoiced to independently owned and operated dealers and customers.

Revenues of financial subsidiaries primarily represent finance and rental revenues of Caterpillar Financial Services Corporation, a wholly owned subsidiary of the company. Finance revenues are recognized over the term of the contract at a constant rate of return on the scheduled uncollected principal balance, and rental revenues are recognized in the period earned.

D. INVENTORIES — With minor exceptions, inventories are stated on the basis of the LIFO (last-in, first-out) method of inventory valuation. This method was first adopted for the major portion of inventories in 1950.

If the FIFO (first in, first-out) method had been in use, inventories would have been $1,611,000,000, $1,628,000,000, and $1,634,000,000 higher than reported at December 31, 1988, 1987, and 1986, respectively.

E. DEPRECIATION — Depreciation is computed principally using accelerated methods. These methods result in a larger allocation of the cost of buildings, machinery, and equipment to operations in the early years of lives of assets than does the dtraight-line method, which allocates costs evenly over the lives of assets. If the straight-line method had always been used, "Buildings, machinery, and equipment — net" would have been $596,000,000, $659,000,000, and $704,000,000 higher than reported at December 31, 1988, 1987, and 1986, respectively.

When the asset becomes fully depreciated, its cost is eliminated from both the asset and the accumulated depreciation accounts.

F. AMORTIZATION — The cost of purchased intangibles is amortized using the straight-line method. Amortization periods are based on estimated remaining useful lives which, at December 31, 1988, averaged 16 years. Accumulated amortization was $143,000,000, $126,000,000, and $113,000,000, at December 31, 1988, 1987, and 1986, respectively.

...ERATING DATA

	1988	[1]1987	[1]1986
...common (year end)	$6.07	$3.45	$0.77
...age)			
...ry credit	$6.07	$3.20	$0.77
...y credit	$6.07	$3.51	$0.77
...common	$0.75	$0.50	[3]$0.50
	$68\frac{1}{2}$-$53\frac{7}{8}$	$74\frac{3}{4}$-$39\frac{7}{8}$	$55\frac{3}{8}$-$36\frac{5}{8}$

FINANCIAL & OPERATING DATA (Cont'd):

Net tang. assets per sh. — common	$94.81	$40.09
Times charges earned:		
Before income taxes	4.19	3.20
After income taxes	3.20	2.63
Price Range —		
— deb. 5.30s, 1992	91⅜-88⅝	93⅛-88
— deb. 6⅞s, 1992	94¾-91	98⅛-93
— deb. 8.60s, 1999	97½-91½	100½-86¾
— deb. 8¾s, 1999	97 -93¼	100¼-91
— deb. 8s, 2001	93 -85	94-80⅛
— deb. 10⅛s, 2017	101⅝-94¾	99⅛-93½
— deb. 6s, 2007	70¼-64⅜	65¼-62
— 8.75% ext. nts., 1997	103 -97⅜	101½-100⅝
— 9⅜% nts., 1993	105¼-98⅜	100¼-99¾
Net tang. assets per $1,000 lg. tm. debt	$5,923	$4,159
Net curr. assets per $1,000 lg. tm. debt	$964	$970
Number of shares — common (year end)	101,414,138	101,422,711
— [2]common (average)	101,410,534	99,668,010
Financial and Operating Ratios		
Curr. assets ÷ curr. liabilities	1.55	1.45
% cash & secur. to current assets	1.39	3.87
% inventory to curr. assets	37.35	33.03
% net curr. assets to net worth	19.43	30.34
% property depreciated	56.12	60.86
% annual depr. to gross property	6.80	6.74
Capitalization:		
% long term debt	16.52	23.74
% deferred inc. taxes	1.56	0.39
% common stk. & surplus	81.92	75.87
Sales ÷ inventory	5.16	6.18
Sales ÷ receivables	3.84	3.76
% sales to net property	365.99	331.58
% sales to total assets	105.87	107.19
% net income to total assets	6.36	4.18
% net income to net worth	6.36	7.76
Analysis of Operations	%	%
Sales	100.00	100.00
Revenues of financial subsidiaries	1.76	1.39
Total sales & revenues	101.76	101.39
Cost of goods sold	78.12	79.74
Sell., gen. & adm. exp.	12.11	13.09
Research & development expenses	1.77	1.94
Interest expense of financial subsidiaries	0.74	0.53
Prov. for plant closing & consolidation costs	......	......
Operating profit	9.01	6.09
Interest expense — excluding financial subsidiaries	2.57	2.56
Balance	6.44	3.53
Other income	1.77	2.08
Provision for income taxes	2.55	1.44
Profit of consolidated companies	5.66	4.17
Equity in profit (loss) of affiliated companies	0.35	(0.27)
Profit — before extraordinary credit	6.01	3.90
Extraordinary credit	......	0.38
Net income	6.01	4.28

[1]Restated for the adoption of SFAS 94, "Consolidation of All Majority-owned Subsidiaries." [2]As reported by company. [3]Plus stock purchase rights

LONG TERM DEBT

1. Caterpillar Inc. sinking fund debenture 5.30s, due 1992:

Rating — A2

AUTHORIZED — $150,000,000; outstanding, Dec. 31, 1988, $15,000,000.
DATED — Apr. 1, 1967. DUE — Apr. 1, 1992.
INTEREST — A&O1 at office of trustee to holders registered 15th day prior to interest date. Debs. are also payable at Chase Manhattan Bank (N.A.), NYC.
TRUSTEE — First National Bank, Chicago.
DENOMINATION — Fully registered, $1,000 and authorized multiples thereof.
CALLABLE — As a whole or in part on at least 30 days' notice at 100.
Also callable for sinking fund (which see) at par.
SINKING FUND — Annually, to retire debs. at par each Apr. 1, thru 1991, cash (or debs.) equal to $7,500,000 debs. outstg. plus similar optional payments. Co. may take credit for any debs. acquired or redeemed or called for redemption (other than thru sinking fund).
LISTED — On New York Stock Exchange.
PURPOSE — Proceeds to repay debt.
OFFERED — ($150,000,000) at 100 (proceeds to Co., 99.125) on Apr. 5, 1967 thru Lehman Brothers and Merrill Lynch, Pierce, Fenner & Smith, Inc., NYC, and associates.

2. Caterpillar Inc. sinking fund debenture 6⅞s, due 1992:

Rating — A2

AUTH. — $100,000,000 outstg., Dec. 31, 1988, $22,000,000.
DATED — June 1, 1972. DUE — June 1, 1992.
INTEREST — J&D1 by mail or at paying agents to holders registered M&N15.
TRUSTEE — First National Bank of Chicago, Ill.
PAYING & TRANSFER AGENTS — Trustee and Chase Manhattan Bank (N.A.), NYC.
DENOMINATION — Fully registered, $1,000 and any multiple of $1,000.
CALLABLE — As a whole or in part at any time on at least 30 days' notice at 100.
Not callable, however, prior to June 1, 1982 thru refunding at interest cost less than 6.97% per annum. Also callable on like notice for sinking fund (which see) at 100.
SINKING FUND — Annually each June 1, thru 1991, cash (or debs.) to retire $6,000,000 principal amount of debs., plus similar optional payments.
SECURITY — Not secured; Co. nor restricted subsidiary may create, assume, or guarantee any secured debt without equally and ratably securing debs. with such secured debt. Foregoing will not apply to (i) certain purchase money mortgages, (ii) mortgages, pledges or liens existing at time of acquisition thereof, or (iii) any extension, renewal or replacement of (i) and (ii).
Notwithstanding the above, Co. or one or more restricted subsidiaries may issue, assume or guarantee secured debt which, thereafter, aggregate amount of outstg. secured debt and aggregate value of sale and leaseback transactions do not exceed 5% of shareholders' ownership.
SALE & LEASEBACK — Co. or any restricted subsidiary may not enter into sale and leaseback transactions involving important property unless (a) property could be mortgaged without securing debs. equally and ratably, or (b) amount equal to proceeds or fair value of property sold is applied to retire funded debt.
INDENTURE MODIFICATION — Indenture may be modified, except as provided, with consent of 66⅔% of debs. outstg.
LISTED — On New York Stock Exchange.
PURPOSE — Proceeds to repay debt.
OFFERED — ($100,000,000) at 99 (proceeds to Co., 98.125) on June 1, 1972 thru Lehman Brothers and Merrill Lynch, Pierce, Fenner & Smith, Inc. and associates.

3. Caterpillar Inc. sinking fund debentures 8.60s, due 1999:

Rating — A2

AUTH. — $150,000,000; outstg. Dec. 31, 1988, $70,000,000.
DATED — May 1, 1974. DUE — May 1, 1999.
INTEREST — M&N 1 at offices of the paying agents, or at Co.'s option, by mail, to holders registered A&O 15.
TRUSTEE — First National Bank of Chicago, Ill.
PAYING & TRANSFER AGENTS — Trustee and Chase Manhattan Bank (N.A.), NYC.
DENOMINATION — Fully registered, $1,000 or any multiple thereof.
CALLABLE — As a whole or in part at any time on at least 30 but not more than 60 days' notice to each Apr. 30, as follows:

1990 .... 102.15 1991 .... 101.72 1992 .... 101.29
1993 .... 100.86 1994 .... 100.43

thereafter at 100.
Not callable, however, prior to May 1, 1984 thru refunding at interest cost less than 8.60% per annum. Also callable on like notice for sinking fund (which see) at 100.
SINKING FUND — Annually, each May 1, 1985-98, cash (or debs.) to retire $10,000,000 principal amount of debs., plus similar optional payments.
SECURITY — OTHER PROVISIONS — Same as s.f. deb. 6⅞s, due 1992.
LISTED — On New York Stock Exchange.
PURPOSE — Proceeds to repay a portion of Co.'s short-term debt incurred to finance construction and improvement of Co.'s facilities and to finance increase working capital requirements.
OFFERED — ($150,000,000) at 100 (proceeds to Co., 99.125) on Apr. 23, 1974 thru Lehman Brothers, Inc. and Merrill Lynch, Pierce, Fenner & Smith, Inc. and associates.

4. Caterpillar Inc. sinking fund debentures [illegible] due 1999:

Rating — A2

AUTH. — $100,000,000; outstg. Dec. 31, [illegible] $56,000,000.
DATED — Nov. 1, 1974. DUE — Nov. 1, 1999.
INTEREST — M&N 1 at offices of the [illegible] agents, or at Co.'s option, by mail, to holders [illegible] istered A&O 15.
TRUSTEE — First National Bank of Chicago [illegible]
PAYING & TRANSFER AGENTS — Trustee [illegible] Chase Manhattan Bank (N.A.), NYC.
DENOMINATION — Fully registered, [illegible] any multiple thereof.
CALLABLE — As a whole or in part at [illegible] on at least 30 but not more than 60 days' [illegible] each Oct. 31, as follows:

1989 .... 102.625 1990 .... 102.125 1991 [illegible]
1992 .... 101.250 1993 .... 100.875 1994 [illegible]

thereafter at 100.
Not callable, however, prior to Nov. 1, [illegible] refunding, or out of proceeds of certain [illegible] leaseback transactions, at an interest cost [illegible] 8.725% per annum. Also callable for sinking [illegible] (which see) at 100.
SINKING FUND — Annually, each Nov. 1, [illegible] 98, cash (or debs.) to retire $6,500,000 [illegible] amount of debs., plus similar optional payments.
SECURITY — OTHER PROVISIONS — [illegible] s.f. deb. 6⅞s, due 1992.
LISTED — On New York Stock Exchange.
PURPOSE — Proceeds to repay a portion of [illegible] short-term debt incurred to finance [illegible] and improvement of Co.'s facilities and to [illegible] increased working capital requirements.
OFFERED — ($100,000,000) at 100.25 (proceeds to Co., 99.375) on Nov. 7, 1974 thru Lehman [illegible] ers, Inc. and Merrill Lynch, Pierce, Fenner & Smith, Inc. and associates.

5. Caterpillar Inc. sinking fund debentures [illegible] due 2001:

Rating — A2

AUTH. — $200,000,000; outstg., Dec. 31, [illegible] $132,000,000.
DATED — Nov. 1, 1976. DUE — Nov. 1, [illegible]
INTEREST — M&N 1 at offices of the [illegible] agents, or at Co.'s option, by mail, to holders [illegible] istered A&O 15
TRUSTEE — First National Bank of Chicago [illegible]
PAYING & TRANSFER AGENTS — Trustee [illegible] Chase Manhattan Bank (N.A.), NYC.
DENOMINATION — Fully registered, [illegible] any multiple thereof.
CALLABLE — As a whole or in part at [illegible] on at least 30 but not more than 60 days' [illegible] each Oct. 31, as follows:

1989 .... 103.20 1990 .... 102.80 1991 [illegible]
1992 .... 102.00 1993 .... 101.60 1994 [illegible]
1995 .... 100.80 1996 .... 100.40

00.
however, prior to Nov. 1, 1986 thru
nterest cost less than 8% per annum.
of sinking fund (which see) at 100.
IND — Annually, on Nov. 1, 1987-
debs.) to retire $13,000,000 principal
outstg.; plus similar optional pay-

OTHER PROVISIONS — Same as
e 1992.
New York Stock Exchange.
roceeds will be added to general
nd will be used to finance capital
nd increased working capital

(200,000,000) at 100 (proceeds to
Oct. 28, 1976 thru Lehman Broth-
Merrill Lynch, Pierce, Fenner &
ssociates.

nc. sinking fund debenture 10⅛s,

Rating — A2
0,000; outstg. Dec. 31, 1988,

1987. DUE — June 1, 2017.
&D 1 to holders registered M&N

he First National Bank of Chicago.
ON — Fully registered, $1,000 or
ltiple of $1,000. Transferable and
thout service charge.
a whole or in part, at any time,
Co. on at least 30 but not more
ice to each May 31 as follows:

1991	108.075	1992	107.600
1994	106.650	1995	106.175
1997	105.225	1998	104.750
2000	103.800	2001	103.325
2003	102.375	2004	101.900
2006	100.950	2007	100.475

100 plus accrued interest. Not
prior to June 1, 1997 from the
anticipation, of the issuance of
money borrowed at an interest
10.19% per annum. Also callable
like notice (which see) at 100.
D — Annually, June 1, 1998-2016,
$5,000,000 principal amount of
optional payments. Sinking fund
tire 95% of debs. prior to matur-

Not secured. Co. will not, and will
cted subsidiary to create, assume
y secured debt without making
for securing the debt securities,
bly with such secured debt.
ASEBACK — Co. will not, and will
restricted subsidiary to, sell or
ortant property owned by it with
king back a lease on such prop-
for a period not exceeding three
that the use by Co. or such
of such property will be dis-
efore the expiration of such
Co. or such restricted subsidiary
rsuant to the provisions in the
secured debt in an amount
realized or to be realized
transfer secured by a mortgage
be leased without equally and
debt securities or (b) Co. or
bsidiary shall apply an amount
of the property so leased to the
120 days after the effective
gement of indebtedness for
or any restricted subsidi-
ded as funded debt as of the
and which, in the case of such
is not subordinate and junior
to the debt securities, subject
voluntary retirements of such

MODIFICATION — Indenture
cept as provided, with consent

AULT — Trustee, or 25% of
clare principal due and paya-
payment of interest).
eds will be used by Co. to fund
ns to, its subsidiary and affil-
finance their operations, and
purposes.
,000,000) at 99.375 plus accrued
o Co., 98.500) on May 26, 1987
& Co.; Merrill Lynch Capital
Lehman Brothers Inc. and

debenture 6s, due 2007:

Rating — A2
OUTSTANDING — Dec. 31,

982. DUE — May 1, 2007.
National Bank of Chicago.
— Fully registered, $1,000 and

whole or in part on 30 days'
erest.
as s.f. debs. 8¾s, due 1999.
,000,000) at 42.369 plus accrued
982.

.75% Three-Year Extendible

Rating — A2
00; outstg., Dec. 31, 1988,

82. DUE — July 15, 1997.

INTEREST — J&J 15 to holders registered J&J 1. The interest rate on the notes until July 15, 1988 is 10.10%. The annual interest rate on the notes will be adjusted on July 15, 1985, 1988, 1991 and 1994, to a rate not less than 102% of the effective annual interest rate on U.S. treasury obligations with three-year maturities as of the July 1 prior to such July 15.
TRUSTEE — First National Bank of Chicago.
DENOMINATION — Fully registered, $50,000 and in integral multiples of $5,000 in excess thereof.
REPAYMENT AT OPTION OF HOLDER — The notes will be repayable on July 15, 1985, 1988, 1991 and 1994, at the option of the registered holder of the notes, at their principal amount together with interest payable to the date of repayment (but instalments of interest whose due date expressed in the Notes is on or prior to the date fixed for repayment will be payable to the holders of record of such Notes, or Notes in lieu of or in substitution for which such Notes were issued at the close of business on the relevant record dates). In order for a note to be repaid, Co. must receive at its office or agency in the City of Chicago, Illinois or the Borough of Manahattan, The City of New York, New York on or before the July 1, but not earlier than the June 15, prior to the repayment date, (i) a note with the form entitled "Option to Elect Repayment" on the reverse of the note duly completed, or (ii) a telegram, telex, facsimile transmission or letter from a member of a national securities exchange or the National Association of Securities Dealers, Inc. or a commercial bank or a trust company in the United States of America setting forth the name of the holder of the note, the principal amount of the note and the amount of the note to be repaid, a statement that the option to elect repayment is being exercised hereby and a guarantee that the note to be repaid with the form entitled "Option to Elect Repayment", on the reverse of the note duly completed will be received by Co. not later than five business days after the date of such telegram, telex, facsimile transmission or letter. Any such notice received by Co. on or before any July 1 shall be irrevocable. The repayment option may be exercised by the holder of a note for less than the entire principal amount of the note, provided the principal amount which is to be repaid is equal to $50,000 or an integral multiple of $5,000 in excess of $50,000 and the principal amount of such note which remains outstanding is at least $50,000. All questions as to the validity, eligibility and acceptance of any notes for repayment will be determined by the Co., whose determination will be final and binding.
CALLABLE — The notes are not redeemable by Co. prior to July 15, 1988. Thereafter, the notes are redeemable upon not less than 30 days' nor more than 60 days' notice by mail on July 15, 1988, 1991 and 1994, at the option of Co., as a whole or from time to time in part, at a redemption price equal to their principal amount together with accrued interest to the date fixed for redemption.
SECURITY — Not secured. Co. will not, and will not permit any restricted subsidiary to, create, assume or guarantee any secured debt without making effective provision for securing the debt securities, equally and ratably with such secured debt. This covenant does not apply to debt secured by (i) certain mortgages, pledges, liens, security interests or encumbrances in connection with the acquisition, construction or improvement of property by Co. or a resticted subsidiary, (ii) mortgages, pledges, liens, security interests or encumbrances on property existing at the time of acquisition thereof, whether or not assumed by Co. or a restricted subsidiary, (iii) mortgages, pledges, liens, security interests or encumbrances on property, shares of stock or indebtedness of a corporation existing at the time such corporation becomes a resticted subsidiary, (iv) mortgages, pledges, liens, security interests or encumbrances on property of a corporation existing at the time such corporation is merged into or consolidated with Co. or a restricted subsidiary or at the time of a sale, lease or other disposition of the properties of a corporation or firm as an entirety or substantially as an entirety to the Company or a restricted subsidiary, (v) mortgages, including mortgages, pledges, liens, security interests or encumbrances, on property of Co. or a restricted subsidiary in favor of the United States of America, any State thereof, or any other country, or any agency, instrumentality or political subdivision thereof, to secure certain payments pursuant to any contract or statute or to secure indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction or improvement of the property subject to such mortgages, (vi) any extension, renewal or replacement in whole or in part, of any mortgage, pledge, lien or encumbrance referred to in the foregoing clauses (i) to (v), inclusive or (vii) any mortgage, pledge, lien, security interest, or encumbrance securing indebtedness owing by Co. or a restricted subsidiary to Co. or to one or more restricted subsidiaries, or both. Notwithstanding the above, the Company and one or more restricted subsidiaries may, without securing the debt securities, create, assume or guarantee secured debt which would otherwise be subject to the foregoing restrictions, provided that, after given effect thereto, the aggregate amount of all secured debt then outstanding and the aggregate "value" of Sale and Leaseback Transactions at such time does not exceed 5% of consolidated net tangible assets.
SALE AND LEASEBACK — Co. will not, and will not permit any restricted subsidiary to, sell or transfer any important property owned by it with the intention of taking back a lease on such property except a lease of a period not exceeding three years with the intent that the use by Co. or such restricted subsidiary of such property will be discontinued on or before the expiration of such period unless (a) Co. or such restricted subsidiary would be entitled pursuant to the provisions of the indenture summarized above to incur secured debt in an amount equal to the amount realized or to be realized upon such sale or transfer secured by a mortgage on the property to be leased without equally and ratably securing the debt securities or (b) Co. or such restricted subsidiary shall apply an amount equal to the value of the property so leased to the retirement, within 120 days after the effective date of such arrangement, of indebtedness for money borrowed by Co. or any restricted subsidiary which was recorded as funded debt as of the date of its creation and which, in the case of such indebtedness of Co., is not subordinate and junior in right of payment to the debt securities, subject to credits for certain voluntary retirements of such indebtedness.
INDENTURE MODIFICATION — Indenture may be modified, except as provided, with consent of 66⅔% of notes outstg.
RIGHTS ON DEFAULT — Trustee, or a majority of notes outstg., may declare principal due and payable (60 days' grace for payment of interest).
PURPOSE — Proceeds were used to refinance approximately $100,000,000 of the $505,000,000 cost of the July 1981 acquisition of the assets constituting the Solar Turbines International Division of the International Harvester Co. which was temporarily financed with short-term debt. The remainder of the Solar acquisition cost has been refinanced through a series of intermediate-term and long-term debt financings in 1981 and 1982 by Co. and by one of its wholly-owned subsidiaries.
OFFERED — ($150,000,000) at 100 plus accrued interest (proceeds to Co., 99.50) on July 19, 1982 thru Goldman, Sachs & Co., Lehman Brothers Kuhn Loeb, Inc., Merrill Lynch White Weld Capital Markets Group and associates.

9. Caterpillar Inc. 9⅜% notes, due 1993:

Rating — A2

AUTH. — $100,000,000; outstg., Dec. 31, 1988, $100,000,000.
DUE — Dec. 1, 1993.
INTEREST — J&D1
CALLABLE — Not callable.
OTHER DETAILS — Not reported.

10. Other Long Term Debt: Outstg., Dec. 31, 1988, $556,000,000 comprised of:
(1) $500,000,000 commercial paper supported by revolving credit agreement.
(2) $56,000,000 other debt.

Debenture Retired: Entire issue of 12½% notes, due Oct. 1, 1990 was called on Oct. 3, 1988 at 100 thru The First National Bank of Chicago.

SUBSIDIARY DEBT

1. Caterpillar Financial Services N.V. Zero Coupon Gtd. notes due 1994:

Rating — A2

AUTH. — $140,000,000; outstg., Dec. 31, 1988, $68,000,000.
DATED — Feb. 11, 1982. DUE — Feb. 11, 1994.
INTEREST — There will not be any periodic payments of interest on the notes. The notes may be presented for payment in United States dollars (a) at the office of the Fiscal Agent at 111 Wall Street, New York City or (b) subject to any applicable laws, at the main offices of the Fiscal Agent in Amsterdam, Brussels, Frankfurt/Main, London, Paris and Zurich, at the main office of Citibank S.A. in Luxembourg, and at any other office or agency in any of the foregoing cities which may be designated by the issuer for such purpose. Payment at the offices referred to in clause (b) above will be made by a United States dollar check drawn on a bank in New York City or by a transfer to a United States dollar account maintained by the payee with a bank in New York City. The issuer may change any paying agent, but as long as any notes remain outstanding, the issuer will maintain a paying agent in New York City and, so long as the notes are listed on the London Stock Exchange, in London. Any moneys paid by the issuer or Caterpillar to a paying agent for the payment of principal of any note which remain unclaimed at the end of three years after such amount shall have become due and payable may be repaid to the issuer or Caterpillar, as the case may be, and the holder of such note will thereafter look only to the issuer or Caterpillar for payment thereof.
TRUSTEE — Citibank, N.A.
DENOMINATION, EXCHANGE AND TRANSFER — The notes will initially be represented by a single temporary global note which will be deposited on behalf of the underwriters with CEDEL S.A. for credit to their respective accounts at CEDEL S.A. on or about February 11, 1982. The issuer will undertake to exchange the temporary global note for definitive notes in bearer form each in the denomination of $5,000, not earlier than the earlier of the date fixed for redemption of any of the notes or 90 days after the completion of the distribution, as determined by Goldman Sachs International Corp. which will notify the Fiscal

Agent in writing of such completion. Such exchange will be made upon certification that the beneficial owners of such notes are not nationals or residents of the United States of America, its possessions or territories. A beneficial owner must exchange his share of the temporary global note for definitive notes before any payments on the notes can be collected. Title to definitive notes will pass by delivery. GUARANTEES — Co. will unconditionally guarantee the due and punctual payment of the principal of the notes when and as the same shall become due and payable, whether at maturity, upon redemption or otherwise.

CALLABLE — The notes may be redeemed upon not less than 30 nor more than 45 days' notice at any time, in whole or in part, at the option of the issuer, at a redemption price equal to 100% of their principal amount at stated maturity. In the case of any partial redemption, the notes to be redeemed shall be selected by the Fiscal Agent in such manner as it shall deem appropriate and fair. The notes may also be redeemed upon not less than 30 nor more than 45 days' notice as a whole, but not in part, at the option of the Issuer at any time, if, at any time, Caterpillar or the Issuer shall determine that (A) as a result of any change in or amendment to the laws of the United States or the Netherlands Antilles or any subdivision or taxing authority thereof or therein affecting taxation, or change in an application or official interpretation of such laws or regulations, or change in an application or official interpretation of, or execution of, or amendment to, any treaty or treaties affecting taxation to which the United States or the Netherlands Antilles is a party (i) Caterpillar or the Issuer has or will become obligated to pay additional amounts, in respect of the notes or (ii) Caterpillar or any of its subsidiaries has or will become obligated to withhold United States tax on interest paid or payable to the Issuer, or (B) an act has been taken by a taxing authority of, or a court of competent jurisdiction in, the United States or the Netherlands Antilles, including any of those specified in (A) above, whether or not such act was taken with respect to the Issuer or Caterpillar, that substantially increases the probability that (i) the Issuer or Caterpillar will or may be required to pay additional amounts in respect of the notes as described or (ii) Caterpillar or any of its subsidiaries will or may be required to withhold United States tax on interest paid or payable to the Issuer. In case of any such redemption, the redemption price will be the applicable percentage of the principal amount at stated maturity set forth below. If redeemed during the twelve months period commencing Feb. 11:

1990	58.422	1991	66.824	1992	76.434
1993	87.427				

together in each case with accrued amortization of original issue discount from the preceding Feb. 11.

SECURITY — The notes will rank equally with other unsecured senior debt of the issuer. The Guarantees will rank equally with other unsecured senior debt of Co. Co. will not, and will not permit any restricted subsidiary to, create, assume or guarantee any secured debt without making effective provision for securing the notes equally and ratably with such secured debt. This covenant does not apply to debt secured by (i) certain mortgages, pledges, liens, security interests or encumbrances in connection with the acquisition, construction or improvement of property by Co. or a restricted subsidiary, (ii) mortgages, pledges, liens, security interests or encumbrances on property existing at the time of acquisition thereof, whether or not assumed by Co. or a restricted subsidiary, (iii) mortgages, pledges, liens, security interests or encumbrances on property, shares of stock or indebtedness of a corporation existing at the time such corporation becomes a restricted subsidiary, (iv) mortgages, pledges, liens, security interests or encumbrances on property of a corporation existing at the time such corporation is merged into or consolidated with Co. or a restricted subsidiary or at the time of a sale, lease or other disposition of the properties of a corporation or firm as an entirety or substantially as an entirety to Co. or a restricted subsidiary, (v) mortgages, including mortgages, pledges, liens, security interests or encumbrances, on property of Co. or a restricted subsidiary in favor of the United States of America, any State thereof, or any other country, or any agency, instrumentality or political subdivision thereof, to secure certain payments pursuant to any contract or statute or to secure indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction or improvement of the property subject to such mortgages, (vi) any extension, renewal or replacement, in whole or in part, of any mortgage, pledge, lien or encumbrance referred to in the foregoing clauses (i) to (v), inclusive, or (vii) any mortgage, pledge, lien, security interest, or encumbrance securing indebtedness owing by Co. or a restricted subsidiary to Co. or to one or more restricted subsidiaries, or both. Notwithstanding the above, Co. and one or more restricted subsidiaries may, without securing the notes, create, assume or guarantee secured debt which would otherwise be subject to the foregoing restrictions, provided that, after giving effect thereto, the aggregate amount of all secured debt then outstanding and the aggregate "value" of sale and leaseback transactions at such time does not exceed 5% of consolidated net tangible assets.

SALE AND LEASEBACK — Co. will not, and will not permit any restricted subsidiary to, sell or transfer any Important Property owned by it with the intention of taking back a lease on such property except a lease for a period not exceeding three years with the intent that the use by Co. or such restricted subsidiary of such property will be discontinued on or before the expiration of such period unless (a) Co. or such restricted subsidiary would be entitled pursuant to the provisions of the covenant summarized above to incur secured debt in an amount equal to the amount realized or to be realized upon such sale or transfer secured by a mortgage on the property to be leased without equally and ratably securing the notes or (b) Co. or such restricted subsidiary shall apply an amount equal to the value of the property so leased to the retirement, within 120 days after the effective date of such arrangement, of indebtedness for money borrowed by Co. or any restricted subsidiary which was recorded as funded debt as of the date of its creation and which, in the case of such indebtedness of Co. is not subordinate and junior in right of payment to the Guarantees, subject to credits for certain voluntary retirements of notes or such indebtedness.

Co. will not itself, and will not permit any restricted subsidiary to, transfer any important property to any unrestricted subsidiary unless it shall apply an amount equal to the fair value of such property at the time of transfer, as determined by the Board of Directors, to the retirement within 120 days of the effective date of such transfer, of indebtedness for money borrowed by Co. or any restricted subsidiary which was recorded as funded debt as of the date of its creation and which, in case of such indebtedness of Co., is not subordinated and junior in right of payment to the Guarantees.

RIGHTS ON DEFAULT — A default will occur under the notes if (a) the issuer shall fail to pay when due the principal of any of the notes, (b) the issuer or Caterpillar shall fail to perform or observe any other term, covenant or agreement contained in the notes, for a period of 60 days after written notice thereof to the issuer, Caterpillar and the fiscal agent by the holders of 25% or more in aggregate principal amount at stated maturity of the notes, or (c) certain events of bankruptcy, insolvency or reorganization with respect to the issuer or Caterpillar shall have occurred.

LISTED — Has been applied for on the Stock Exchange of the United Kingdom and the Republic of Ireland.

PURPOSE — Proceeds will be used to refinance a portion of the approximate $505,000,000 cost of the acquisition of the assets constituting the Solar Turbines International Division of International Harvester Co., which was temporarily financed with short-term debt.

OFFERED — ($140,000,000) issue of zero coupon gtd. notes due 1994 of Caterpillar Financial Services N.V., subsidiary, at 19.940 plus accrued amortization of original issue discount from Feb. 11, 1982 Feb. 3, 1982 thru Goldman Sachs International Corp., Lehman Brothers Kuhn Loeb International, Inc., Merrill Lynch International & Co. and associates.

2. Caterpillar Financial Services N.V. zero coupon gtd. notes, due 1992:

Rating — A2

AUTH. — $300,000,000; outstg., Dec. 31, 1988, $184,000,000.

DUE — Aug. 11, 1992.

CALLABLE — Callable at 100.

GUARANTEED — Guaranteed by Caterpillar Inc.

OTHER DETAILS — Not reported.

3. Other Subsidiary debt: Outstg. Dec. 31, 1988, $525,000,000 8.7% notes of financial subsidiaries maturing up to six years.

CAPITAL STOCK

Caterpillar Inc. common; no par:

AUTHORIZED — 200,000,000 shs.; outstg., Dec. 31, 1988, 101,414,138 shs.; in treas. 23,470 shs.; reserved for options, 2,545,098 shs.; reserved for employee stock ownership plan, 399,544 shs.; reserved for employee investment plans, 5,700,089 shs.; no par.

Par changed from $25 to no par in Dec., 1926, by 5-for-1 split; from no par to $10 on May, 1949, by 2-for-1 split; $10 par shares split 2-for-1 April 20, 1955; changed from $10 to no par in Aug., 1959, by 3-for-1 split; no par shares split 2-for-1 [illegible] 1964; no par shares split 3-for-2 in June, 1976.

DIVIDENDS PAID — (since 1924 as follows):

On par $25 shares:

1925	2.50	[1]1926	5.25		

On no par shares after 5-for-1 split:

1927	1.65	1928	2.60	1929	[illegible]
1930	4.00	1931	3.00	1932	[illegible]
1933	0.12½	1934	1.25	[2]1935-44	[illegible]
1945	2.50	1946-48	3.00	1949	[illegible]

On $10 par shares after 2-for-1 split:

1949	1.00	1950	2.25	1951-52	[illegible]
[3]1953	2.50	[3]1954	2.00	1955	[illegible]

On $10 par shares after 2-for-1 split:

1955	1.20	1956	1.95	1957-58	[illegible]
1959	1.95				

On no par shares after 3-for-1 split:

1959	0.25	1960-62	1.00	1963	[illegible]
1964	0.70				

On no par shares after 2-for-1 split:

1964	0.40	1965	1.00	1966-70	[illegible]
1971	1.35	1972	1.40	1973	[illegible]
1974	1.65	1975	1.85	1976	[illegible]

On no par shares after 3-for-2 split:

1976	0.75	1977	1.57½	1978	[illegible]
1979	2.10	1980	2.32½	1981-82	[illegible]
1983	1.50	1984	1.25	[4]1985-87	[illegible]
1988	0.75	[5]1989	0.30		

[1]Plus 25% stock.

[2]Plus either 50 cents in cash or at stock [illegible] option, 1/200ths share of 5% preferred (par [illegible] in November, 1936; plus 6/200ths share of [illegible] ferred (par $100) in December, 1936; plus [illegible] share 5% preferred (par $100) in December, [illegible]

[3]Also paid 4% in stock.

[4]Plus stock purchase rights in 1986, see below.

[5]To Feb. 20.

DIVIDEND REINVESTMENT PLAN — offers an Automatic Dividend Reinvestment [illegible] which allows shareholders to increase their [illegible] ship in Caterpillar common stock. In addition, participants may make optional cash payments [illegible] purchase more Caterpillar shares. Plan is [illegible] tered by Morgan Shareholder Services Trust [illegible] New York.

VOTING RIGHTS — One vote per share. Cumulative voting rights in election of directors.

PREEMPTIVE RIGHTS — None.

OFFERED — (5,000,000 shs.) at $47.25 per [illegible] May 12, 1983 thru Merrill Lynch White Weld [illegible] ital Markets Group, Goldman, Sachs & Co., [illegible] man Bros. Kuhn Loeb Inc. and associates. [illegible] ceeds will be used to reduce commercial [illegible] issued to finance capital expenditures and [illegible] increased working capital expenditures [illegible] meet increased working capital requirements.

TRANSFER AGENT, DIVIDEND DISBURS-ING AGENT AND REGISTRAR — [illegible] Shareholder Services Trust Co., New York.

LISTED — On NYSE (Symbol: CAT). Also on Pacific, Midwest, Belgium, France, Great [illegible] ain, Switzerland and West Germany Exchanges.

Stock Purchase Rights: On Dec. 1, [illegible] company distributed a dividend of one [illegible] stock purchase right for each outstanding [illegible] common stock. Each right entitles the [illegible] purchase one one-hundredth of a share of [illegible] Series A Junior Participating Preferred Stock [illegible] par value, for $150, subject to adjustment. [illegible] rights are exercisable only after a third [illegible] acquires 20% or more of the company's [illegible] stock or after commencement of a tender [illegible] a third party, which upon consummation [illegible] result in such party's control of 30% or [illegible] the company's common stock. The rights [illegible] do not have voting rights, expire on Dec. [illegible] and may be redeemed by the Co. at a [illegible] $0.05 per right at any time until ten days [illegible] 20% ownership position has been acquired [illegible] such period is extended. The right of [illegible] may be reinstated under certain circumstances.

If the Co. is acquired in a merger or other [illegible] ness combination at any time after the [illegible] become exercisable and the Co. is not the [illegible] corporation or its common stock is [illegible] exchanged or 50% or more of the Co.'s [illegible] earning power is sold or transferred, each [illegible] right will entitle its holder to purchase [illegible] shares of the acquiring company having a [illegible] value of twice the exercise price of each [illegible] 20% or greater holder acquires the Co. and [illegible] is the surviving corporation and its common [illegible] is not changed or exchanged, or such [illegible] engages in one or more "self-dealing" [illegible] as set forth in the Rights Agreement or [illegible] its beneficial ownership of the Co. by [illegible] 1% in a transaction involving the Co., [illegible] will entitle its holder, other than the [illegible] purchase common stock of the Co. (or [illegible] tain circumstances to receive cash, preferred [illegible] or other securities of the Co.), at a [illegible] discount from market value at that time.